

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

RECEIVED
2006 AUG -7 PM 4:12
SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of United Utility Companies,
Inc. for adjustment of rates and charges
and modifications to certain terms
and conditions for the provision of
water and sewer service.

REBUTTAL TESTIMONY
OF
CONVERSE CHELLIS

Q. ARE YOU THE SAME CONVERSE CHELLIS THAT HAS PREFILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHY ARE YOU OFFERING REBUTTAL TESTIMONY IN THIS CASE?

A. I have been asked by United Utility Companies, Inc., or UUC, to give my opinion with respect to the merits of certain assertions at a night hearing in this case which bear on the Company's cost structure and the means by which it captures these costs on its books.

Q. PLEASE DESCRIBE THESE ASSERTIONS?

A. It is my understanding that Mr. Alvin Simpson has testified to the Commission that UUC should be able to provide accounting data, including expenses and capital costs, for each utility facility the Company operates. I understand he also testified that it is more expensive to operate a larger plant than a smaller plant.

1 **Q. STARTING WITH THE FIRST ASSERTION, DO YOU BELIEVE UUC SHOULD**
2 **BE EXPECTED TO ACCOUNT SEPARATELY FOR EACH INDIVIDUAL**
3 **FACILITY?**

4 **A.**No, I do not. Although it sounds like a simple matter, accounting for utility
5 facilities by each subdivision or system and recording revenues realized and the operating
6 and capital expenses incurred by each one is neither required nor appropriate for a
7 company such as UUC.

9 **Q. WHY DO YOU SAY IT IS NOT REQUIRED?**

10 **A.**It is my understanding that UUC has been in business since 1985 and has never
11 been required by the Commission to account for its revenues, expenses, or capital costs
12 on a subdivision or system basis. To the contrary, the Supreme Court upheld the
13 Commission's determination in the August Kohn case that the appropriate means by
14 which rates are to be set is the entirety of a utility's property without regard to particular
15 groups of customers or individual subdivisions.¹

17 **Q. WHY DO YOU SAY IT IS NOT APPROPRIATE?**

18 **A.**There are two primary reasons why I believe it is not appropriate. First, UUC is
19 in a situation distinct from many privately owned utilities in South Carolina in that it
20 operates several systems in many counties throughout the state. Second, it is a subsidiary
21 of a larger corporation and has certain affiliate transactions with other subsidiaries. From
22 an accounting standpoint, this means that it would be difficult, time consuming and

¹ August Kohn & Co. v. Public Service Com., 281 S.C. 28 (1984).

1 expensive to separate out costs on a per subdivision or per facility basis. Because larger
2 water and wastewater utilities like UUC are able to pool their resources, it is more
3 economical and efficient to operate these systems collectively than as several individual
4 entities. For instance, such utilities are able to negotiate better prices by purchasing in
5 bulk for several systems rather than for each individual system. Likewise, it would not
6 be prudent for larger utilities to be required to separate out the costs incurred by each
7 system. UUC would incur unnecessary expenses to calculate and attribute costs and
8 portions of costs to each system. Such expenses would not provide much insight into the
9 financial workings of the Company and would not be productive. Actually, requiring
10 such methods would be counterproductive to the benefits of having a company of this
11 size operating several plants. The savings that are realized from pooling resources and
12 collectively purchasing materials and chemicals would be offset by the paperwork and
13 manpower needed to segregate the costs. I would add that, if UUC were to be regulated
14 on a system or subdivision basis as Mr. Simpson suggests, the putative savings he implies
15 would exist are very likely to be short-term, if not illusory. This is because the
16 responsibility for increases in operating capital expenditures would be borne solely by
17 customers residing in a given subdivision or served by a given system. Thus, for
18 example, the Company's customers in Chambert Forest would have to bear all of the
19 costs associated with the plant upgrade described in ORS's testimony in this case. The
20 abandonment of a uniform rate structure would therefore not be in the interest of
21 customers in my opinion.

1 **Q. DO YOU BELIEVE IT IS MORE EXPENSIVE TO RUN A LARGER PLANT**
2 **THAN A SMALLER PLANT?**

3 **A.** Clearly, on a total cost basis, a larger plant will incur more total costs than a
4 smaller plant will. The larger the plant, the more customers it serves, the more
5 employees it is required to higher, the more chemicals it is required to purchase, etc.
6 However, as a general rule, the larger the company is, the smaller its per customer unit
7 cost will be. This widely accepted principle is known as economies of scale. Essentially,
8 this principle recognizes that a company that achieves economies of scale lowers the
9 average cost per unit through increased production or services rendered since fixed costs
10 are shared over an increased number of goods or services. With respect to water and
11 wastewater utilities, bigger utilities will see greater economies of scale because they will
12 be spreading their fixed costs across a larger customer base which allows a lower per unit
13 cost. For example, this would allow a lower cost per thousand gallons of water
14 consumed, or would result in a reduced sewer charge. If these systems were operated
15 individually, the cost per customer would be much higher because they would not be able
16 to achieve these economies of scale.

17
18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A.** Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

IN RE:

Application of United Utility Companies,
Inc. for adjustment of rates and charges
and modifications to certain terms
and conditions for the provision of
water and sewer service.

REBUTTAL TESTIMONY
OF
B.R. SKELTON, Ph.D.

RECEIVED
2006 AUG -7 PM 4:12
SC PUBLIC SERVICE
COMMISSION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is B. R. Skelton and my business address is 2962 Walhalla Highway, Six Mile, South Carolina 29682. I am Professor *Emeritus* of Economics at Clemson University and am engaged in a variety of private business endeavors, including real estate brokerage and residential construction. I also act as a mediator and arbitrator. Since 1974, I have mediated 190+ disputes and written decisions in over 1000 arbitration cases, mostly union-management grievances. I have also arbitrated deferrals from the courts and the NLRB.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received my B.S. degree in Arts & Sciences (History & Economics) from Clemson University in 1956. In 1958, I received a Masters of Science degree in Agricultural Economics from Clemson University. I received my Ph.D. in Economics from Duke University in 1964.

1 From 1959 to 1987, I was a professor of Economics at Clemson except for 1961-
2 63 when I was in graduate school at Duke University. In addition to teaching standard
3 economic theory, my academic background includes writing, lecturing and research in
4 the areas of labor economics, economic development and arbitration. While at Clemson,
5 I was a member of the Southern Economics Association and American Economic
6 Association. I was also a member of the Arbitration Panel of the Federal Mediation and
7 Conciliation Service and the American Arbitration Association. I retired from Clemson
8 in 1987.

9
10 **Q. PLEASE DESCRIBE YOUR WORK IN THE REAL ESTATE FIELD.**

11 **A.** Over time I have developed subdivisions, commercial property, apartments and
12 bought and sold real estate of all types.

13
14 **Q. DO YOU PROVIDE ANY CONSULTING SERVICES?**

15 **A.** I have served as a consultant to various individuals and companies, mostly
16 wrongful death and injury, divorce, product liability and valuation of business losses. I
17 was President of Economic Research and Consulting Associates prior to 1980, the
18 business that provided this analysis. I have testified before the PSC in one case involving
19 a water company in Oconee County.

20
21 **Q. DO YOU HOLD ANY OTHER PROFESSIONAL DESIGNATIONS?**

1 **A.** Yes. I am a mediator and arbitrator and am licensed by the State of South
2 Carolina as both a real estate broker and residential contractor. I am also an elected
3 member of the National Academy of Arbitrators and have been a member since 1981.

4
5 **Q. DR. SKELTON, PLEASE DISCUSS THE BASIS FOR YOUR OPINIONS IN THIS**
6 **CASE.**

7 **A.** I am qualified to offer my opinions in this case based on my studies, research,
8 teaching, writing and consulting in the field of economics and on my experience as a real
9 estate investor and broker and as a business person.

10 My opinions are based on my analyses of the relevant materials I have reviewed
11 to date and my fifty years of teaching, writing, researching, consulting, and lecturing in
12 the field of economics. I may supplement, refine, or revise my analyses as appropriate
13 based on additional testimony, documents, or other materials that may become available
14 in this case.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 **A.** The purpose of my rebuttal testimony is to express my opinion on the Return on
18 Equity range proposed by ORS in this matter through the testimony of Dr. Randy
19 Woolridge.

20
21 **Q. IN YOUR OPINION, IS THE RANGE OF RETURNS RECOMMENDED BY DR.**
22 **WOOLRIDGE SUFFICIENT TO MAINTAIN UUC'S FINANCIAL VIABILITY?**

1 **A.** No, it is not. Dr. Woolridge recommends a return on common equity (“ROE”) range of 9.00-9.40% and an overall return on rate base within the range of 7.48-7.64%.
2
3 Such a return would weaken UUC’s financial position considerably as is demonstrated by
4 the comparison with the return on common equity authorized by the Commission just
5 over two years ago. Additionally, this return is insufficient in comparison to the ROE
6 recently stipulated to by the North Carolina Public Staff for an affiliated company of
7 UUC.

8
9 **Q. WHY IS A COMPARISON OF UUC’S CURRENT RATE CASE WITH ITS 2000**
10 **RATE CASE APPROPRIATE?**

11 **A.** It is my understanding that when a utility files an application for a rate case in
12 South Carolina, among the factors the Commission should consider is the comparison of
13 the utility’s previous rate case filing. In 1996, the South Carolina Supreme Court issued
14 its opinion in Heater of Seabrook, Inc. v Public Service Commission, 324 S.C. 56, 478
15 S.E. 2d 826 (1996). The Court stated there that “[i]n determining whether Heater’s
16 expenses had increased enough to justify a rate increase, [the] Commission should have
17 compared the current test year, including any known and measurable changes after the
18 test year, with [the] test year from the prior case.” I believe a comparison of previously
19 authorized and currently proposed returns on investment is also appropriate.

20
21 **Q. WHY WOULD THE COMPARISON OF UUC’S CURRENT TEST YEAR WITH**
22 **THE TEST YEAR FROM ITS PRIOR CASE BE RELEVANT IN THIS**
23 **SITUATION?**

1 **A.** I have reviewed UUC's filing from the last rate case as well as the relevant orders.
2 Based upon UUC's 2000 test year, the Commission found in its Order No. 2004-254 that
3 a fair return on common equity was 10%. Recommending such a reduction in the
4 company's financial health in this matter should give the Commission pause.

5
6 **Q. WHY IS THAT?**

7 **A.** If the Commission should adopt the ROE recommended by ORS, it would be
8 sending a message that the Company should be earning less of a return on equity now
9 than what it was allowed to earn just two years ago. Even relatively unsophisticated
10 investors should be aware that the interest rates have been increasing over the past few
11 years. Similarly, the Company's cost of investment has been increasing. Furthermore,
12 the Commission should be able to take notice, and the Company's financial information
13 shows, that the cost of providing water and sewer service has only increased.
14 Considering these factors together should clearly demonstrate that the company should be
15 allowed to earn more of a return now than two years ago. For that reason, it is very
16 difficult to justify decreasing the company's ability to earn a sufficient return on its
17 investment.

18
19 **Q. YOU MENTIONED A RECENT STIPULATION WITH AN AFFILIATE OF**
20 **UUC; COULD YOU ELABORATE ON THIS?**

21 **A.** I have reviewed the application of Transylvania Utilities, Inc. ("TUI") filed with
22 the North Carolina Utilities Commission ("NCUC") in Docket No. W-1012 Sub 7 for an
23 increase in its rates. TUI is similarly situated to UUC in that it is a smaller utility

1 providing water and wastewater services. On June 28, 2006, TUI filed with the NCUC a
2 stipulation with the North Carolina Public Staff whereby that agency agreed to a 10.7%
3 ROE and an overall Return on Rate Base of 8.19% for TUI, a copy of which I attach as
4 BRS Rebuttal Exhibit 1. This recent acknowledgment of a fair and reasonable return for
5 an affiliated company similarly situated to UUC is, in my view, further evidence that
6 ORS's proposed return in this case is insufficient.

7
8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes, it does.

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**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 27, 2006

FILED

JUN 28 2006

Clerk's Office
N.C. Utilities Commission

Ms. Renne C. Vance, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Re: Docket No. W-1012, Sub 7
Transylvania Utilities, Inc.

Dear Ms. Vance:

Enclosed for filing in the above-referenced docket are twelve (12) copies of a Stipulation of Transylvania Utilities, Inc., and the Public Staff. Transylvania Utilities, Inc., has reviewed the document and is in agreement with its provisions.

Sincerely,

A handwritten signature in cursive script, reading "Gina C. Holt".

Gina C. Holt
Staff Attorney

GCH/bll

Enclosure

(24)
p.c.
Dennis
Lester
William
Adam
Brown
Kelli

Executive Director
733-2435

Communications
733-2810

Economic Research
733-2902

Legal
733-6110

Transportation
733-7766

Accounting
733-4279

Consumer Services
733-9277

Electric
733-2267

Natural Gas
733-4326

Water
733-5610

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**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1012, SUB 7

**JUN 28 2006
Clerk's Office
N.C. Utilities Commission**

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	STIPULATION OF
Application by Transylvania Utilities, Inc., 5701)	TRANSYLVANIA
Westpark Drive, Suite 101, Charlotte, North)	UTILITIES, INC. AND
Carolina 28210, for Authority to Increase Rates for)	THE PUBLIC STAFF
Water and Sewer Utility Service in Connestee Falls)	

Transylvania Utilities, Inc. ("TUI") and the Public Staff - North Carolina Utilities Commission (the "Public Staff"), (jointly the "Parties") submit the following stipulation for the Commission's consideration in the above-captioned docket. The Parties agree that:

1. On February 8, 2006, TUI filed an application for a general increase in its water and sewer rates for its service area in the Connestee Falls Subdivision, Transylvania County, North Carolina.
2. On March 7, 2006, the Commission declared the above-captioned proceeding to be a general rate case pursuant to N.C. Gen. Stat. § 62-137 and suspended the proposed rates, scheduled hearing and required public notice.
3. On April 13, 2006, the Commission issued an order limiting the hearing scheduled for June 27, 2006, to testimony of customer witnesses and scheduling an evidentiary hearing for June 29th, and requiring customer notice.
4. By order dated May 24, 2006, the Commission changed the location of the customer hearing from the Transylvania County Courthouse to the Connestee Falls Clubhouse.
5. The test year for purposes of establishing rates in this docket is the 12-month period ended June 30, 2005, updated through December 31, 2005.
6. TUI requested an increase in its water and sewer rates that would produce the following additional revenues:

Water:	\$375,769
Sewer:	\$293,749

7. TUI's original cost rate base at December 31, 2005 is:
- | | |
|--------|-------------|
| Water: | \$1,913,503 |
| Sewer: | \$ 753,107 |
8. TUI had water plant in service of \$2,800,232 and sewer plant in service of \$1,345,379 at the end of the test year, including pro forma adjustments.
9. It is reasonable to allocate the amount of \$18,133, which was the cost of pumps, motors, and plumbing from abandoned wells on TUI's system, among all of Utilities, Inc's., North Carolina systems, such that 4% of this amount is allocated to TUI.
10. The accumulated depreciation at the end of the test year, including pro forma adjustments, was \$427,476 for water operations and \$393,947 for sewer operations.
11. The contributions in aid of construction at the end of the test year was \$389,171 for water operations and \$266,229 for sewer operations, reduced by accumulated amortization of \$78,281 for water operations and \$58,674 for sewer operations.
12. The costs which TUI incurred for clearing water and sewer easements and right-of-ways will be amortized over 10 years.
13. The costs which TUI incurred for an inflow and infiltration study on the wastewater system will be amortized over five years.
14. TUI is entitled to total rate case costs of \$96,541, consisting of \$81,731 of current rate case costs and \$14,810 of unamortized costs from the prior rate case. These costs should be amortized over three years, thereby resulting in an annual rate case expense of \$32,180.
15. It is reasonable and appropriate to calculate regulatory fees using the statutory rate of 0.12%.
16. It is reasonable and appropriate to calculate gross receipts tax based on the levels of revenues and the statutory rates of 4% for water operations and 6% for sewer operations.
17. It is reasonable and appropriate to calculate the state and federal income taxes based on the corporate rates of 6.9% for state income tax and 34% for federal income tax. The domestic production facilities deduction has been included in the calculation of federal income taxes.

18. TUI's total operating revenue deductions under present rates are:

Water:	\$386,462
Sewer:	\$294,937

19. TUI's total operating revenue deductions under the agreed-upon rates are:

Water:	\$437,877
Sewer:	\$324,031

20. TUI's present rates produce the following operating revenues:

Water:	\$467,174
Sewer:	\$253,563

21. On June 7, 2006, the Parties entered into a Partial Settlement Agreement establishing the rate of return components to be used in the above-captioned docket. The agreed upon overall rate of return on rate base was established at 8.19%.

22. The Parties agree that TUI is entitled to charges that will produce the following revenues:

Water:	\$594,528
Sewer:	\$385,685

23. Accordingly, the Parties agree that TUI is entitled to have the following rates established as shown in Appendix A:

Water:

Metered rate, zero usage	
5/8" x 3/4"	\$ 21.95
1" meter	\$ 54.88
2" meter	\$175.60
Usage Rate/1000 gallons	\$ 5.33

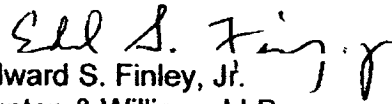
Sewer:

Flat rate	\$ 33.00
Metered rate, zero usage	
5/8" x 3/4"	\$ 19.66
1" meter	\$ 49.15
2" meter	\$157.28
Usage Rate/1000 gallons	\$ 4.93

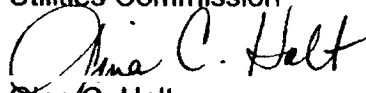
24. TUI is not seeking fee increases in reconnection charges, new customer charges, meter installation fee, meter testing fee, tampering fee, return check charge or premise visit fee.
25. TUI agrees to make journal entries on its books and records to correct the amounts for plant in service, contributions in aid of construction, accumulated depreciation, accumulated amortization, and acquisition adjustment pursuant to the Commission's order in Docket No. W-1012, Sub 5. TUI agrees to, within 60 days of the effective date of the order issued in this case, provide the journal entries to the Public Staff for review before they are recorded on TUI's books. TUI also agrees to file the final journal entries with the Commission within 120 days of the effective date of the order issued in this case.
26. TUI agrees to revise its calculation of customer equivalents to include only actual customers in the calculation. TUI agrees to file a new customer equivalent report within three months of the effective date of the order issued in this case.
27. The Stipulating Parties agree that all prefiled testimony and exhibits may be introduced into evidence without objection, and the parties hereto waive their right to cross-examine all witnesses with respect to all such prefiled testimony and exhibits.
28. The Parties agree that any Recommended Order approving rates and charges agreed to in this stipulation may become the Final Order of the Commission upon issuance and waive the right to file exceptions to the Recommended Order.
29. The Parties agree to waive appeal of a Final Order of the Commission incorporating the matters stipulated to herein.
30. The Parties acknowledge that this Stipulation resulted from extensive negotiations and compromise. Thus, the agreements reached do not necessarily reflect the respective Parties' beliefs as to the proper treatment or level of the matters cited. Except as needed to carry out the terms of the Commission's Order, which is based on this Stipulation, the Parties have agreed that none of the positions, treatments, figures or other matters reflected in this Stipulation shall have any precedential value, nor shall they otherwise be used in any subsequent proceedings before this Commission or any other regulatory body as proof of the matter in issue.

The foregoing is agreed and stipulated to this the 28th day of June, 2006.

Transylvania Utility Services, Inc.

By: 
Edward S. Finley, Jr.
Hunton & Williams LLP
One Hannover Square
Suite 1400
421 Fayetteville St. Mall
Raleigh, NC 27601

Public Staff - North Carolina
Utilities Commission

By: 
Gina C. Holt
Staff Attorney

SCHEDULE OF RATES
for

TRANSYLVANIA UTILITIES, INC.
for providing water and sewer utility service in

CONNESTEE FALLS SUBDIVISION
Transylvania County, North Carolina

Monthly Metered Water Rates:

Base Charge, zero usage (based on meter size)

5/8 x 3/4" meter (typical residential service)	\$ 21.95
1" meter	\$ 54.88
2" meter	\$175.60

Usage Charge, per 1,000 gallons	\$ 5.33
---------------------------------	---------

MONTHLY SEWER RATES:

<u>Flat Rate:</u> (Sewer only customers)	\$ 33.00
--	----------

Metered: (Based on water used)

Base Charge, zero usage (based on meter size)

5/8 x 3/4" meter	\$ 19.66
1" meter	\$ 49.15
2" meter	\$157.28

Usage Charge, per 1,000 gallons	\$ 4.93
---------------------------------	---------

MONTHLY AVAILABILITY RATES:

Water	\$ 5.00
Sewer	\$ 5.00

CONNECTION CHARGES:

Water	\$600 per tap
Sewer	\$400 per tap

RECONNECTION CHARGES:

Water Service -

If water service disconnected by utility for good cause: \$ 27.00
If water service disconnected by utility at customer's request: *\$ 27.00

- * Customers who ask to be reconnected within nine months of disconnection will be charged the base charge for each month they were disconnected.

Sewer Service;

If sewer service disconnected by utility for good cause: Actual Cost
If sewer service disconnected by utility at customer's request:** Actual Cost

- ** The sewer disconnection charge will be waived if the sewer customer is also a water customer. Customers who ask to be reconnected within nine months of disconnection will be charged the base facility charge for the service period they were disconnected. In situations where sewer service is disconnected for sewer only customers the actual cost will be charged. The utility will itemize the estimated cost of disconnecting and reconnecting service and will furnish this exhibit to customers with cut-off notice.

NEW CUSTOMER CHARGE:

Water - \$27.00
Sewer - \$27.00 ***

- *** This charge will be waived if sewer customer is also water customer.

METER TESTING FEE: \$20.00 ****

- **** If a customer requests a test of a water meter more frequently than once in a 24-month period, this Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter test charge will be waived. If the meter is found to register accurately or within such prescribed limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

BILLS DUE: On billing date.

BILLS PAST DUE: 15 days after billing date.

BILLS FREQUENCY:

Water and Sewer Rates -
Availability Rates -

Shall be monthly for service in arrears
Shall be quarterly in advance

CHARGE FOR RETURNED CHECK: \$12.00

FINANCE CHARGE FOR LATE PAYMENT: 1% per month will be applied to the
unpaid balance of all bills past due 25 days after billing date.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission
in Docket No. W-1012, Sub 7, on this the ____ day of _____, 2006.

INDEX TO STIPULATION EXHIBIT I

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TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
RETURN ON ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Water Operations

Line No.	Item	Capital-ization Ratio (a)	Original Cost Rate Base (b)	Embedded Cost (c)	Overall Cost Rate (d)	Net Operating Income (e)
		[1]	[2]	[6]	[7]	
		(a)	(b)	(c)	(d)	(e)
1.	Debt	58.45%	\$1,118,443	6.40%	3.74%	\$71,580
2.	Equity	41.55%	795,060	1.15%	0.48%	9,132
3.	Total	100.00%	\$1,913,503		4.22%	\$80,712
4.	Debt	58.45%	\$1,118,443	6.40%	3.74%	\$71,580
5.	Equity	41.55%	795,060	29.33%	12.19%	233,196
6.	Total	100.00%	\$1,913,503		15.93%	\$304,776
7.	Debt	58.45%	\$1,118,443	6.40%	3.74%	\$71,580
8.	Equity	41.55%	795,060	10.70%	4.45%	85,071
9.	Total	100.00%	\$1,913,503		8.19%	\$156,651

[1] Based on stipulation between Public Staff and Company.
[2] Column (a) x Line 3, Column (b).
[3] Stipulation Exhibit I, Schedule 2(a), Line 10, Column (c).
[4] Column (a) x Line 6, Column (b).
[5] Column (a) x Line 9, Column (b).
[6] Column (e) divided by Column (b).

[7] Column (a) x Column (c).
[8] Column (b) x Column (c).
[9] Line 3 - Line 1, Column (e).
[10] Stipulation Exhibit I, Schedule 3(a), Line 40, Column (c).
[11] Line 6 - Line 4, Column (e).
[12] Stipulation Exhibit I, Schedule 3(a), Line 40, Column (e).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
RETURN ON ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Sewer Operations

Line No.	Item	Capital-ization Ratio (a)	Original Cost Rate Base (b)	Embedded Cost (c)	Overall Cost Rate (d)	Net Operating Income (e)
		[1]	[2]	[6]	[7]	
1.	<u>Present rates:</u>					
2.	Debt	58.45%	\$440,191	6.40%	3.74%	\$28,172
3.	Equity	41.55%	312,916	-22.23%	-9.24%	(69,546)
	Total	100.00%	\$753,107		-5.50%	(\$41,374)
4.	<u>Company proposed rates:</u>					
5.	Debt	58.45%	\$440,191	6.40%	3.74%	\$28,172
6.	Equity	41.55%	312,916	40.50%	16.83%	126,717
	Total	100.00%	\$753,107		20.57%	\$154,889
7.	<u>Stipulated:</u>					
8.	Debt	58.45%	\$440,191	6.40%	3.74%	\$28,172
9.	Equity	41.55%	312,916	10.70%	4.45%	33,482
	Total	100.00%	\$753,107		8.19%	\$61,654

- [1] Based on stipulation between Public Staff and Company.
[2] Column (a) x Line 3, Column (b).
[3] Stipulation Exhibit I, Schedule 2(b), Line 10, Column (c).
[4] Column (a) x Line 6, Column (b).
[5] Column (a) x Line 9, Column (b).
[6] Column (e) divided by Column (b).

- [7] Column (a) x Column (c).
[8] Column (b) x Column (c).
[9] Line 3 - Line 1, Column (e).
[10] Stipulation Exhibit I, Schedule 3(b), Line 40, Column (c).
[11] Line 6 - Line 4, Column (e).
[12] Stipulation Exhibit I, Schedule 3(b), Line 40, Column (e).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2

Water and Sewer Combined

Line No.	<u>Item</u>	Per Application [1] (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments [1] (c)
1.	Plant in service	\$4,459,980	(\$314,369)	\$4,145,611
2.	Accumulated depreciation	(686,359)	(135,064)	(821,423)
3.	Cash working capital	74,213	(7,790)	66,423
4.	Average tax accruals	0	(9,653)	(9,653)
5.	Contributions in aid of construction, net	(494,034)	(24,411)	(518,445)
6.	WSC rate base	17,472	(5,044)	12,428
7.	CWS regional offices	20,696	(150)	20,546
8.	Deferred charges - rate base	0	137,320	137,320
9.	Accumulated deferred income taxes	<u>(257,843)</u>	<u>(108,354)</u>	<u>(366,197)</u>
10.	Original cost rate base	<u>\$3,134,125</u>	<u>(\$467,515)</u>	<u>\$2,666,610</u>

[1] Stipulation Exhibit I, Schedule 2(a) plus Schedule 2(b).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2(a)

Water Operations

Line No.	<u>Item</u>	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$2,973,903	(\$173,671)	\$2,800,232 [2]
2.	Accumulated depreciation	(359,645)	(67,831)	(427,476) [3]
3.	Cash working capital	41,397	(5,361)	36,036 [4]
4.	Average tax accruals	0	(5,572)	(5,572) [5]
5.	Contributions in aid of construction, net	(295,026)	(15,864)	(310,890) [6]
6.	WSC rate base	10,693	(3,062)	7,631 [7]
7.	CWS regional offices	12,666	(51)	12,615 [7]
8.	Deferred charges - rate base	0	48,293	48,293 [7]
9.	Accumulated deferred income taxes	<u>(159,420)</u>	<u>(87,946)</u>	<u>(247,366) [7]</u>
10.	Original cost rate base	<u><u>\$2,224,568</u></u>	<u><u>(\$311,065)</u></u>	<u><u>\$1,913,503</u></u>

- [1] Column (c) - Column (a).
- [2] Stipulation Exhibit I, Schedule 2-1, Line 8, Column (a).
- [3] Stipulation Exhibit I, Schedule 2-2, Line 10, Column (a).
- [4] One-eighth of O&M expenses.
- [5] One-sixth of gross receipts tax and payroll taxes, plus one-half of property taxes.
- [6] Stipulation Exhibit I, Schedule 2-3, Line 15, Column (a).
- [7] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2(b)

Sewer Operations

Line No.	<u>Item</u>	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$1,486,077	(\$140,698)	\$1,345,379 [2]
2.	Accumulated depreciation	(326,714)	(67,233)	(393,947) [3]
3.	Cash working capital	32,816	(2,429)	30,387 [4]
4.	Average tax accruals	0	(4,081)	(4,081) [5]
5.	Contributions in aid of construction, net	(199,008)	(8,547)	(207,555) [6]
6.	WSC rate base	6,779	(1,982)	4,797 [7]
7.	CWS regional offices	8,030	(99)	7,931 [7]
8.	Deferred charges - rate base	0	89,027	89,027 [7]
9.	Accumulated deferred income taxes	(98,423)	(20,408)	(118,831) [7]
10.	Original cost rate base	<u>\$909,557</u>	<u>(\$156,450)</u>	<u>\$753,107</u>

- [1] Column (c) - Column (a).
[2] Stipulation Exhibit I, Schedule 2-1, Line 8, Column (b).
[3] Stipulation Exhibit I, Schedule 2-2, Line 10, Column (b).
[4] One-eighth of O&M expenses.
[5] One-sixth of gross receipts tax and payroll taxes, plus one-half of property taxes.
[6] Stipulation Exhibit I, Schedule 2-3, Line 15, Column (b).
[7] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ADJUSTMENT TO PLANT IN SERVICE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-1

Line No.	<u>Item</u>	<u>Water</u> (a)	<u>Sewer</u> (b)	<u>Total</u> (c) [5]
1.	Amount per Company application	\$2,973,903 [1]	\$1,486,077 [1]	\$4,459,980
	Public Staff adjustments:			
2.	Difference in Sub 5 stipulation	(51,638) [2]	5,545 [2]	(46,093)
3.	Remove proforma estimates from application	(527,780) [1]	(319,856) [1]	(847,636)
4.	Include 6 months 6/30-12/31/2005	246,827 [3]	50,439 [3]	297,266
5.	Remove salvaged abandoned well items	(17,408) [4]	0	(17,408)
6.	Include 2006 projects completed net of retirements	210,511 [4]	88,986 [4]	299,497
7.	Adjust allocation of common plant	<u>(34,183) [4]</u>	<u>34,188 [4]</u>	<u>5</u>
8.	Plant in service per Public Staff	<u><u>\$2,800,232</u></u>	<u><u>\$1,345,379</u></u>	<u><u>\$4,145,611</u></u>

- [1] Per Company application.
- [2] Per Stipulation in Docket No. W-1012, Sub 5.
- [3] Per Company records.
- [4] Agreed to by the parties.
- [5] Column (a) plus Column (b).

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

Stipulation Exhibit I

Schedule 2-2

**CALCULATION OF PLANT IN SERVICE, ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE**
For The Test Year Ended December 31, 2005

Line No.	Item	Water (a)	Sewer (b)	Common (c)	Total (d) [11]
Plant in service					
1.	Plant acquired	\$368,529 [1]	\$638,454 [5]	\$47,218 [8]	\$1,054,201
2.	Additions as of 12/31/03	1,406,993 [2]	346,045 [6]	189,609 [9]	1,942,647
3.	Additions since 12/31/03	848,424 [3]	250,056 [7]	50,283 [10]	1,148,763
4.	Allocation of common plant	176,286 [4]	110,824 [4]	(287,110) [4]	0
5.	Total plant in service	<u>\$2,800,232</u>	<u>\$1,345,379</u>		<u>\$4,145,611</u>
Accumulated depreciation					
6.	Plant acquired	259,183 [1]	466,074 [5]	43,369 [8]	768,626
7.	Additions as of 12/31/03	153,008 [2]	58,536 [6]	171,454 [9]	382,998
8.	Additions since 12/31/03	(108,257) [3]	(208,329) [7]	(13,615) [10]	(330,201)
9.	Allocation of common plant	123,542 [4]	77,666 [4]	(201,208) [4]	0
10.	Total accumulated depreciation	<u>\$427,476</u>	<u>\$393,947</u>		<u>\$821,423</u>
Depreciation expense					
11.	Plant acquired	8,202 [1]	15,797 [5]	0 [8]	23,999
12.	Additions as of 12/31/03	28,894 [2]	6,519 [6]	8,907 [9]	44,320
13.	Additions since 12/31/03	21,161 [3]	5,244 [7]	8,223 [10]	34,628
14.	Allocation of common plant	10,518 [4]	6,612 [4]	(17,130) [4]	0
15.	WSC and CWS office depreciation expense	2,177 [12]	1,369 [12]		3,546
16.	Total depreciation expense	<u>\$70,952</u>	<u>\$35,541</u>		<u>\$106,493</u>

[1] Stipulation Exhibit I, Schedule 2-2(a), Line 6.

[2] Stipulation Exhibit I, Schedule 2-2(b), Line 79.

[3] Stipulation Exhibit I, Schedule 2-2(b), Line 188.

[4] Common plant in Column (c) allocated 61.4% to water and 38.6% to sewer based on customer ratio.

[5] Stipulation Exhibit I, Schedule 2-2(a), Line 10.

[6] Stipulation Exhibit I, Schedule 2-2(b), Line 134.

[7] Stipulation Exhibit I, Schedule 2-2(b), Line 213.

[8] Stipulation Exhibit I, Schedule 2-2(a), Line 13.

[9] Stipulation Exhibit I, Schedule 2-2(b), Line 154.

[10] Stipulation Exhibit I, Schedule 2-2(b), Line 223.

[11] Sum of Columns (a) through (c).

[12] Per Company books and records.

TRANSLYVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED DEPRECIATION AND
DEPRECIATION EXPENSE ON ASSETS ACQUIRED IN TRANSFER**

For The Test Year Ended December 31, 2005

Line No.	Item	Year Placed in Service (a)	Cost (b)	Acc. Depr. at 12/31/93 (c)	Useful Life (d)	Annual Depreciation (e)	Accumulated Depreciation (f)	(3)
	Water operations							
1.	Water plant	1976	\$218,700	\$98,590	50	\$4,374	\$151,078	
2.	Well pumps	1984	6,543	1,191	10	0	6,543	
3.	Transmission/distribution mains	1979	36,651	12,862	100	367	17,266	
4.	Meters	1989	99,635	41,189	30	3,321	81,041	
5.	Service lines	1990	7,000	1,575	50	140	3,255	
6.	Total purchased water plant		<u>368,529</u>	<u>155,407</u>		<u>8,202</u>	<u>259,183</u>	
	Sewer operations							
7.	Sewer plant	1976	611,781	273,084	40	15,295	456,624	
8.	Pumps/lift stations	1989	22,007	2,373	50	440	7,653	
9.	Service lines	1990	4,666	1,053	75	62	1,797	
10.	Total purchased sewer plant		<u>638,454</u>	<u>276,510</u>		<u>15,797</u>	<u>466,074</u>	
	Common plant							
11.	Fully depreciated plant		43,369	24,472		0	43,369	
12.	Land	1979	3,849	na	na	na	na	
13.	Total purchased common plant		<u>47,218</u>	<u>24,472</u>		<u>0</u>	<u>43,369</u>	
14.	Totals		<u>\$1,054,201</u>	<u>\$456,389</u>		<u>\$23,999</u>	<u>\$768,626</u>	

[1] Based on last general rate case, Docket No. W-1012, Sub 5.

[2] Column (b) divided by Column (d), unless fully depreciated.

[3] Column (e) multiplied by 12 years in service from December 31, 1993 to December 31, 2005 plus Column (c), unless fully depreciated.

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
Amounts in prior rate case:							
Water operations							
1.	Fully depreciated plant	\$19,972 [1]					\$19,972
2.	Distribution reservoirs & service lines	2,477 [1]	1992	50	13.5	\$50	575
3.	Transmission and distribution mains	410 [1]	1992	100	13.5	4	54
4.	Meters	4,495 [1]	1992	30	13.5	150	2,025
5.	Organizational costs	26,461 [1]	1992	40	13.5	662	8,937
6.	Wells & springs, distrib. reserv., & service lines	10,669 [1]	1993	50	12.5	213	2,663
7.	Water treatment structure & hydrants	662 [1]	1993	40	12.5	17	213
8.	Transmission and distribution mains	19,273 [1]	1993	100	12.5	193	2,413
9.	Wells and springs	5,808 [1]	1994	50	11.5	116	1,334
10.	Structures and improvements	1,942 [1]	1994	50	11.5	39	449
11.	Water treatment equipment	2,236 [1]	1994	40	11.5	56	644
12.	Distribution reservoirs	20,372 [1]	1994	50	11.5	407	4,681
13.	Transmission/distribution mains	9,302 [1]	1994	100	11.5	93	1,070
14.	Service lines	8,454 [1]	1994	50	11.5	169	1,944
15.	Wells and springs	4,851 [1]	1995	50	10.5	97	1,019
16.	Water treatment equipment	1,124 [1]	1995	40	10.5	28	294
17.	Distribution reservoirs	398 [1]	1995	50	10.5	8	84
18.	Transmission/distribution mains	2,794 [1]	1995	100	10.5	28	294
19.	Service lines	3,831 [1]	1995	50	10.5	77	809
20.	Meters	2,733 [1]	1995	30	10.5	91	956
21.	Wells and springs	2,907 [1]	1996	50	9.5	58	551
22.	Electric pump equipment	2,310 [1]	1996	10	9.5	231	2,195
23.	Water treatment equipment	357 [1]	1996	40	9.5	9	86
24.	Transmission/distribution mains	13,245 [1]	1996	100	9.5	132	1,254
25.	Service lines	14,302 [1]	1996	50	9.5	286	2,717
26.	Wells and springs	8,501 [1]	1997	50	8.5	170	1,445
27.	Electric pump equipment	1,660 [1]	1997	10	8.5	166	1,411
28.	Water treatment equipment	326 [1]	1997	40	8.5	8	68
29.	Distribution reservoirs	1,872 [1]	1997	50	8.5	37	315
30.	Transmission/distribution mains	7,590 [1]	1997	100	8.5	76	646

TRANSPYLVANIA UTILITIES, INC.

Docket No. W-1012 Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-2(b)
Page 2 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
31.	Service lines	6,242 [1]	1997	50	8.5	125	1,063
32.	Meters	7,567 [1]	1997	30	8.5	252	2,142
33.	Structures and improvements	2,981 [1]	1998	50	7.5	60	450
34.	Wells and springs	11,314 [1]	1998	50	7.5	226	1,695
35.	Electric pump equipment	4,190 [1]	1998	30	7.5	140	1,050
36.	Water treatment equipment	4,802 [1]	1998	40	7.5	120	900
37.	Distribution reservoirs	722 [1]	1998	50	7.5	14	105
38.	Transmission/distribution mains	18,463 [1]	1998	100	7.5	185	1,388
39.	Service lines	15,797 [1]	1998	50	7.5	316	2,370
40.	Structures and improvements	12,260 [1]	1999	50	6.5	245	1,593
41.	Wells and springs	28,346 [1]	1999	50	6.5	567	3,686
42.	Electric pump equipment	975 [1]	1999	10	6.5	98	637
43.	Water treatment equipment	143 [1]	1999	40	6.5	4	26
44.	Distribution reservoirs	611 [1]	1999	50	6.5	12	78
45.	Transmission/distribution mains	18,327 [1]	1999	100	6.5	183	1,190
46.	Service lines	15,065 [1]	1999	50	6.5	301	1,957
47.	Meters	5,655 [1]	1999	30	6.5	189	1,229
48.	Structures and improvements	870 [1]	2000	50	5.5	17	94
49.	Wells and springs	54,227 [1]	2000	50	5.5	1,085	5,968
50.	Electric pump equipment	682 [1]	2000	10	5.5	68	374
51.	Water treatment equipment	215 [1]	2000	40	5.5	5	28
52.	Transmission/distribution mains	7,158 [1]	2000	100	5.5	72	396
53.	Service lines	16,472 [1]	2000	50	5.5	329	1,810
54.	Meters	383 [1]	2000	30	5.5	13	72
55.	Structures and improvements	661 [1]	2001	50	4.5	13	59
56.	Wells and springs	192,693 [1]	2001	50	4.5	3,854	17,343
57.	Water treatment equipment	217 [1]	2001	40	4.5	5	23
58.	Distribution reservoirs	737 [1]	2001	50	4.5	15	68
59.	Transmission/distribution mains	12,583 [1]	2001	100	4.5	126	567
60.	Service lines	20,050 [1]	2001	50	4.5	401	1,805
61.	Meters	2,378 [1]	2001	30	4.5	79	356
62.	Electric pump equipment	34 [1]	2001	10	4.5	3	14
63.	Structures and improvements	2,186 [1]	2002	50	3.5	44	154

TRANSLYVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
64.	Wells and springs	20,822 [1]	2002	50	3.5	416	1,456
65.	Electric pump equipment	970 [1]	2002	30	3.5	32	112
66.	Water treatment equipment	868 [1]	2002	40	3.5	22	77
67.	Transmission/distribution mains	9,765 [1]	2002	100	3.5	98	343
68.	Service lines	16,081 [1]	2002	50	3.5	322	1,127
69.	Meters	1,970 [1]	2002	30	3.5	66	231
70.	Structures and improvements	34,303 [1]	2003	50	2.5	686	1,715
71.	Wells and springs	574,482 [1]	2003	50	2.5	11,490	28,725
72.	Electric pump equipment	16,756 [1]	2003	10	2.5	1,676	4,190
73.	Water treatment equipment	1,150 [1]	2003	40	2.5	29	73
74.	Transmission/distribution mains	16,185 [1]	2003	100	2.5	162	405
75.	Service lines	37,253 [1]	2003	50	2.5	745	1,863
76.	Meters	7,670 [1]	2003	30	2.5	256	640
77.	Distribution reservoirs	470 [1]	2003	50	2.5	9	23
78.	Organizational cost - Qualla Village	1,908 [1]	2003	40	2.5	48	120
79.	Total prior water plant	1,406,993				28,894	153,008
Sewer operations							
80.	Sewage treatment plant	1,922 [1]	1992	40	13.5	48	648
81.	Service lines	1,572 [1]	1992	75	13.5	21	284
82.	Lift station	286 [1]	1992	50	13.5	6	81
83.	Organizational costs	17,285 [1]	1992	40	13.5	432	5,832
84.	Sewage treatment plant	15,612 [1]	1993	40	12.5	390	4,875
85.	Service lines	3,606 [1]	1993	75	12.5	48	600
86.	Force or vacuum mains	117 [1]	1993	100	12.5	1	13
87.	Buildings & structures	144 [1]	1994	50	11.5	3	35
88.	Sewage treatment plant	35,653 [1]	1994	40	11.5	891	10,247
89.	Sewage service lines	6,317 [1]	1994	75	11.5	84	966
90.	Force or vacuum mains	930 [1]	1994	100	11.5	9	104
91.	Sewer mains	4,152 [1]	1994	100	11.5	42	483
92.	Lift stations	49,954 [1]	1994	50	11.5	999	11,489
93.	Sewage treatment plant	4,394 [1]	1995	40	10.5	110	1,155
94.	Sewer service lines	1,772 [1]	1995	75	10.5	24	252

TRANSLYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
95.	Sewer mains	4,263 [1]	1995	100	10.5	43	452
96.	Lift stations	4,176 [1]	1995	50	10.5	84	882
97.	Sewage treatment plant	22,438 [1]	1996	40	9.5	561	5,330
98.	Sewage service lines	4,315 [1]	1996	75	9.5	58	551
99.	Sewer mains	5,585 [1]	1996	100	9.5	56	532
100.	Lift stations	4,509 [1]	1996	50	9.5	90	855
101.	Lift stations	19,986 [1]	1997	50	8.5	400	3,400
102.	Sewage service lines	2,199 [1]	1997	75	8.5	29	247
103.	Sewer mains	10,886 [1]	1997	100	8.5	109	927
104.	Sewage treatment plant	643 [1]	1997	40	8.5	16	136
105.	Lift stations	205 [1]	1998	50	7.5	4	30
106.	Sewage service lines	7,141 [1]	1998	75	7.5	95	713
107.	Sewage treatment plant	74 [1]	1998	40	7.5	2	15
108.	Sewer mains	5,408 [1]	1998	100	7.5	54	405
109.	Lift stations	2,496 [1]	1999	50	6.5	50	325
110.	Sewage service lines	7,705 [1]	1999	75	6.5	103	670
111.	Sewage treatment plant	3,349 [1]	1999	40	6.5	84	546
112.	Sewer mains	4,509 [1]	1999	100	6.5	45	293
113.	Manholes	216 [1]	1999	50	6.5	4	26
114.	Lift stations	2,094 [1]	2000	50	5.5	42	231
115.	Sewage service lines	10,141 [1]	2000	75	5.5	135	743
116.	Manholes	260 [1]	2000	50	5.5	5	28
117.	Sewage treatment plant	810 [1]	2000	40	5.5	20	110
118.	Sewer mains	2,295 [1]	2000	100	5.5	23	127
119.	Sewage treatment plant	718 [1]	2001	40	4.5	18	81
120.	Sewage service lines	7,176 [1]	2001	75	4.5	96	432
121.	Sewer mains	666 [1]	2001	100	4.5	7	32
122.	Manholes	380 [1]	2001	50	4.5	8	36
123.	Lift stations	4,538 [1]	2002	50	3.5	91	319
124.	Sewage service lines	11,879 [1]	2002	75	3.5	158	553
125.	Sewer mains	516 [1]	2002	100	3.5	5	18
126.	Sewage treatment plant	5,340 [1]	2002	40	3.5	134	469
127.	Lift stations	3,666 [1]	2003	50	2.5	73	183

TRANSLYVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-2(b)
Page 5 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
128.	Sewage service lines	19,756 [1]	2003	75	2.5	263	958
129.	Force or vacuum mains	670 [1]	2003	100	2.5	7	18
130.	Sewer mains	6,267 [1]	2003	100	2.5	63	158
131.	Manholes	60 [1]	2003	50	2.5	1	3
132.	Sewage treatment plant	13,087 [1]	2003	40	2.5	327	818
133.	Organizational cost - Qualla Village	1,907 [1]	2003	40	2.5	48	120
134.	Total prior sewer plant	346,045				6,519	58,536
Common plant							
135.	Fully depreciated plant	135,798 [1]					135,798
136.	Undistributed plant	226 [1]	1992	15	13.5	15	203
137.	Tools and misc equipment	408 [1]	1992	20	13.5	20	270
138.	Tools and misc equipment	2,341 [1]	1993	20	12.5	117	1,463
139.	Tools and misc equipment	2,639 [1]	1994	20	11.5	132	1,518
140.	Tools and misc equipment	5,344 [1]	1995	20	10.5	267	2,804
141.	Office furniture and equipment	99 [1]	1996	10	9.5	10	95
142.	Tools and misc equipment	2,471 [1]	1996	20	9.5	124	1,178
143.	Tools and misc equipment	538 [1]	1997	20	8.5	27	230
144.	Tools and misc equipment	3,614 [1]	1998	20	7.5	181	1,358
145.	Tools and misc equipment	1,894 [1]	1999	20	6.5	95	618
146.	Tools and misc equipment	1,005 [1]	2000	20	5.5	50	275
147.	Tools and misc equipment	60 [1]	2001	20	4.5	3	14
148.	Mini computers	2,130 [1]	2002	5	3.5	426	1,491
149.	Tools and misc equipment	1,236 [1]	2002	20	3.5	62	217
150.	Transportation equipment	21,904 [1]	2002	4	3.5	5,476	19,166
151.	Tools and misc equipment	7,149 [1]	2003	4	2.5	1,787	4,468
152.	Communication equipment	488 [1]	2003	10	2.5	49	123
153.	Transportation equipment	265 [1]	2003	4	2.5	66	165
154.	Total prior common plant	189,609				8,907	171,454
155.	Additions from prior case (L79 + L134 + L154)	1,942,647				44,320	382,998

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**
For The Test Year Ended December 31, 2005

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	[1]	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
Additions since last rate case:								
Water operations								
156.	Wells and springs	115,826 [1]	2004	50		1.5	2,317	3,476
157.	Electric pump equipment	34,114 [1]	2004	10		1.5	3,411	5,117
158.	Transmission/distribution mains	236,553 [1]	2004	100		1.5	2,366	3,549
159.	Retirement transmission/distribution mains	(79,761) [1]					0	(79,761)
160.	Service lines	39,411 [1]	2004	50		1.5	788	1,182
161.	Structures and improvements	29,733 [2]	2004	50		1.5	595	893
162.	Water treatment equipment	504 [2]	2004	40		1.5	13	20
163.	Distribution reservoirs	1,682 [2]	2004	50		1.5	34	51
164.	Meters	9,203 [2]	2004	30		1.5	307	461
165.	Meters	8,919 [2]	2005	30		1.0	297	297
166.	Service lines	48,300 [2]	2005	50		1.0	966	966
167.	Transmission/distribution mains	198,922 [2]	2005	100		1.0	1,989	1,989
168.	Retirement transmission/distribution mains	(43,866) [2]					(439)	(43,866)
169.	Water treatment equipment	1,895 [2]	2005	40		1.0	47	47
170.	Electric pump equipment	5,503 [2]	2005	10		1.0	550	550
171.	Structures and improvements	2,317 [2]	2005	50		1.0	46	46
172.	Wells and springs	46,266 [2]	2005	50		1.0	925	925
173.	Distribution reservoirs	296 [2]	2005	50		1.0	6	6
174.	Power generation	103,147 [2]	2006	20 [3]		1.0	5,157	5,157
175.	Wells and springs	78,849 [2]	2006	50		1.0	1,577	1,577
176.	Structures and improvements	750 [2]	2006	50		1.0	15	15
177.	Retirement structures and improvements	(550) [2]					(11)	(550)
178.	Electric pump equipment	1,746 [2]	2006	10		1.0	175	175
179.	Retirement electric pump equipment	(1,373) [2]					(137)	(1,373)
180.	Water treatment equipment	1,179 [2]	2006	40		1.0	29	29
181.	Retirement water treatment-equipment	(400) [2]					(10)	(400)
182.	Distribution reservoirs	1,649 [2]	2006	50		1.0	33	33
183.	Retirement distribution reservoirs	(350) [2]					(7)	(350)
184.	Transmission/distribution mains	10,251 [2]	2006	100		1.0	103	103
185.	Retirement transmission/distribution mains	(6,525) [2]					(65)	(6,525)
186.	Service lines	6,459 [2]	2006	50		1.0	129	129
187.	Retirement service lines	(2,225) [2]					(45)	(2,225)
188.	Total additions to water plant	848,424					21,161	(108,257)

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**

For The Test Year Ended December 31, 2005

No.	Item	Plant In Service Per Public Staff	Year Placed In Service	Life	Years in Service	Annual Depreciation	Accumulated Depreciation
		(a)	(b)	(c)	(d)	(e)	(f)
<u>Sewer operations</u>							
189.	Sewage treatment plant	23,824 [1]	2004	40	1.5	596	894
190.	Lift stations	28,410 [1]	2004	50	1.5	568	852
191.	Retirement-lift station	(10,848) [1]		50		0	(10,848)
192.	Sewage service lines	19,133 [1]	2004	75	1.5	255	383
193.	Sewer mains	5,270 [1]	2004	100	1.5	53	80
194.	Manholes	33,026 [2]	2004	50	1.5	661	992
195.	Lift stations	36,566 [2]	2005	50	1.0	731	731
196.	Sewer mains	4,442 [2]	2005	100	1.0	44	44
197.	Force or vacuum mains	355 [2]	2005	100	1.0	4	4
198.	Sewage service lines	23,631 [2]	2005	75	1.0	315	315
199.	Sewage treatment plant	8,151 [2]	2005	40	1.0	204	204
200.	Manholes	365 [2]	2005	50	1.0	7	7
201.	Power generation-sewer	28,211 [2]	2006	20 [3]	1.0	1,411	1,411
202.	Retirement-lift station generator	(21,158) [2]		50		(423)	(21,158)
203.	Force or vacuum mains	243,815 [2]	2006	100	1.0	2,438	2,438
204.	Retirement-force or vacuum mains	(182,861) [2]		100		(1,829)	(182,861)
205.	Lift stations	956 [2]	2006	50	1.0	19	19
206.	Retirement lift stations	(250) [2]		50		(5)	(250)
207.	Sewage service lines	1,470 [2]	2006	75	1.0	20	20
208.	Force or vacuum mains	731 [2]	2006	100	1.0	7	7
209.	Retirement force or vacuum mains	(375) [2]		100		(4)	(375)
210.	Manholes	1,728 [2]	2006	50	1.0	35	35
211.	Sewage treatment plant	6,910 [2]	2006	40	1.0	173	173
212.	Retirement sewage treatment plant	(1,446) [2]		40		(36)	(1,446)
213.	Total additions to sewer plant	250,056				5,244	(208,329)
<u>Common plant</u>							
214.	Mini computers	271 [1]	2004	5	1.5	54	81
215.	Tools and misc equipment	8,984 [1]	2004	20	1.5	449	674
216.	Communication equipment	3,550 [1]	2004	10	1.5	355	533
217.	Transportation equipment	4,757 [2]	2004	4	1.5	1,189	1,784
218.	Tools and misc equipment	2,000 [2]	2005	20	1.0	100	100
219.	Transportation equipment	1,562 [2]	2005	4	1.0	391	391

TRANSLYVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**
For The Test Year Ended December 31, 2005

No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service (b)	Life (c)	[1]	Years in Service (d)	Annual Depreciation (e)	Accumulated Depreciation (f)
220.	Power generation-common	32,088 [2]	2006	20 [3]		1.0	1,604	1,604
221.	Retirement-power generation-common	(24,066) [2]		20 [3]			(1,203)	(24,066)
222	Transportation equipment	21,137 [2]	2006	4		1.0	5,284	5,284
223	Total additions to common plant	50,283					8,223	(13,615)
224.	Totals (L155 + L188 + L213 + L223)	\$3,091,410					\$78,948	\$52,797

[1] Based on last general rate case, Docket No. W-1012, Sub 5, unless otherwise footnoted.

[2] Per review of Company records.

[3] Provided by Public Staff Engineer Tweed.

[4] Based on year placed in service using half year convention.

[5] Column (a) divided by Column (c), unless fully depreciated.

[6] Column (d) x Column (e), unless fully depreciated.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF CONTRIBUTIONS IN AID OF
CONSTRUCTION, ACCUMULATED AMORTIZATION,
AND AMORTIZATION EXPENSE**
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-3

Line No.	Item	Water Operations (a)	Sewer Operations (b)	Combined Operations (c) [4]
1.	CIAC as of 12/31/03	(\$341,771) [1]	(\$241,429) [1]	(\$583,200)
2.	Plus: CIAC additions in 2004	(25,200) [2]	(13,600) [2]	(38,800)
3.	CIAC as of 12/31/04	<u>(366,971)</u>	<u>(255,029)</u>	<u>(622,000)</u>
4.	CIAC amortization rate	2.46% [3]	2.54% [3]	
5.	Annual amortization for 2004 (Line 3 x Line 4)	<u>(9,027)</u>	<u>(6,478)</u>	<u>(15,505)</u>
6.	CIAC as of 12/31/04	(366,971)	(255,029)	(622,000)
7.	Plus: CIAC additions in 2005	(22,200) [2]	(11,200) [2]	(33,400)
8.	CIAC as of 12/31/05	<u>(389,171)</u>	<u>(266,229)</u>	<u>(655,400)</u>
9.	CIAC amortization rate	2.46% [3]	2.54% [3]	
10.	Annual amortization for 2005 (Line 8 x Line 9)	<u>(9,574)</u>	<u>(6,762)</u>	<u>(16,336)</u>
11.	Accumulated amortization at 12/31/03	59,680 [1]	45,434 [1]	105,114
12.	Amortization for 2004 (Line 5)	9,027	6,478	15,505
13.	Amortization for 2005 (Line 10)	9,574	6,762	16,336
14.	Accumulated amortization at 12/31/05	<u>78,281</u>	<u>58,674</u>	<u>136,955</u>
15.	CIAC, net of amortization (Line 8 + Line 14)	<u><u>(\$310,890)</u></u>	<u><u>(\$207,555)</u></u>	<u><u>(\$518,445)</u></u>

- [1] Based on last general rate case, Docket No. W-1012, Sub 5.
[2] Based on information provided by Company.
[3] Calculated based on depreciation rates for plant in service.
[4] Column (a) plus Column (b).

TRANSPYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2005

Water and Sewer Combined

Line No.	Item	Present Rates		Company Proposed Rates		Stipulated		
		Per Application (a)	Public Staff Adjustments (b) (1)	Per Public Staff (c)	Net Company Increase (d) (1)	Operations After Rate Increase (e) (1)	Net Increase (f) (1)	Operations After Rate Increase (g) (1)
Operating Revenues:								
1.	Service revenues	\$594,778	\$14,918	\$609,696	\$669,518	\$1,279,214	\$259,476	\$869,172
2.	Availability revenues	88,080	(3,360)	84,720	0	84,720	0	84,720
3.	Miscellaneous revenues	37,355	(1,854)	35,501	0	35,501	0	35,501
4.	Uncollectible accounts	(32,969)	23,789	(9,180)	0	(9,180)	0	(9,180)
5.	Total operating revenues	687,244	33,493	720,737	669,518	1,390,255	259,476	980,213
Operating & Maintenance Expenses:								
6.	Electric power	78,012	(406)	77,606	0	77,606	0	77,606
7.	Chemicals	15,355	1,205	16,560	0	16,560	0	16,560
8.	Salaries and wages	186,024	(17,347)	168,677	0	168,677	0	168,677
9.	Outside services - direct	3,710	493	4,203	0	4,203	0	4,203
10.	Employee benefits	40,572	(1,405)	39,167	0	39,167	0	39,167
11.	Insurance - other	19,665	(1,679)	17,986	0	17,986	0	17,986
12.	Rents	3,398	421	3,819	0	3,819	0	3,819
13.	Office supplies	3,702	392	4,094	0	4,094	0	4,094
14.	Billing & customer service	11,234	24	11,258	0	11,258	0	11,258
15.	Office utilities	10,250	(262)	9,988	0	9,988	0	9,988
16.	Office maintenance	1,483	62	1,545	0	1,545	0	1,545
17.	Miscellaneous expenses	7,817	(97)	7,720	0	7,720	0	7,720
18.	Maintenance - water plant	53,997	(14,316)	39,681	0	39,681	0	39,681
19.	Maintenance - sewer plant	12,385	1,065	13,450	0	13,450	0	13,450
20.	Maintenance - sludge hauling/rodding	27,424	11,129	38,553	0	38,553	0	38,553
21.	Maintenance - common plant	15,207	10,846	26,053	0	26,053	0	26,053
22.	Operators expense	3,316	3,264	6,580	0	6,580	0	6,580
23.	Water testing	3,341	130	3,471	0	3,471	0	3,471
24.	Sewer testing	3,343	1,151	4,494	0	4,494	0	4,494
25.	Equipment and chemical testing	494	317	811	0	811	0	811
26.	Transportation expense	27,796	(11,245)	16,551	0	16,551	0	16,551
27.	Rate case expense	65,376	(33,196)	32,180	0	32,180	0	32,180
28.	WSC expense adjustment	0	(11,584)	(11,584)	0	(11,584)	0	(11,584)
29.	CWS office expense adjustment	0	(1,275)	(1,275)	0	(1,275)	0	(1,275)
30.	Total O&M expenses	593,701	(62,313)	531,388	0	531,388	0	531,388
31.	Depreciation expense	141,634	(35,141)	106,493	0	106,493	0	106,493
32.	Amortization expense	(15,890)	(446)	(16,336)	0	(16,336)	0	(16,336)
33.	Property taxes	4,765	(2,524)	2,241	0	2,241	0	2,241
34.	Payroll taxes	18,682	(1,387)	17,295	0	17,295	0	17,295
35.	Regulatory fee	864	1	865	804	1,669	311	1,176
36.	Gross receipts tax	33,862	39	33,901	32,656	66,557	13,021	46,922
37.	State income tax	23,801	(22,788)	1,013	39,090	40,103	12,186	13,199
38.	Federal income tax	95,297	(90,758)	4,539	176,641	181,180	54,991	59,530
39.	Total operating revenue deductions	896,716	(215,317)	681,399	249,191	930,590	80,509	761,908
40.	Net operating income for return	(\$209,472)	\$248,810	\$39,338	\$420,327	\$459,665	\$178,967	\$218,305

[1] Stipulation Exhibit I, Schedule 3(a) plus Schedule 3(b)

TRANSPYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 3(a)

Water Operations

Line No.	Item	Present Rates		Company Proposed Rates		Stipulated	
		Per Application (a)	Public Staff Adjustments (b) (1)	Net Company Increase (d) (1)	Operations After Rate Increase (e) (1)	Net Increase (f) (1)	Operations After Rate Increase (g) (1)
Operating Revenues:							
1	Service revenues	\$384,577	\$10,825	\$375,769	\$724,171	\$127,354	\$522,758
2	Availability revenues	58,560	(2,280)	0	56,280	0	56,280
3	Miscellaneous revenues	24,407	(2,255)	0	22,152	0	22,152
4	Uncollectible accounts	(19,995)	13,335	0	(6,660)	0	(6,660)
5	Total operating revenues	447,549	19,625	375,769	842,943	127,354	594,528
Operating & Maintenance Expenses:							
6	Electric power	42,632	(338)	0	42,294	0	42,294
7	Chemicals	2,882	549	0	3,431	0	3,431
8	Salaries and wages	114,034	(10,466)	0	103,568	0	103,568
9	Outside services - direct	1,855	726	0	2,581	0	2,581
10	Employee benefits	24,871	(822)	0	24,049	0	24,049
11	Insurance - other	9,223	1,820	0	11,043	0	11,043
12	Rents	1,699	646	0	2,345	0	2,345
13	Office supplies	2,269	245	0	2,514	0	2,514
14	Billing & customer service	6,886	41	0	6,927	0	6,927
15	Office utilities	6,283	(150)	0	6,133	0	6,133
16	Office maintenance	909	40	0	949	0	949
17	Miscellaneous expenses	4,669	(52)	0	4,617	0	4,617
18	Maintenance - water plant	53,997	(14,316)	0	39,681	0	39,681
19	Maintenance - sewer plant	0	0	0	0	0	0
20	Maintenance - sludge hauling/rodding	0	0	0	0	0	0
21	Maintenance - common plant	7,132	991	0	8,123	0	8,123
22	Operators expense	1,658	2,382	0	4,040	0	4,040
23	Water testing	3,341	130	0	3,471	0	3,471
24	Sewer testing	0	0	0	0	0	0
25	Equipment and chemical testing	247	251	0	498	0	498
26	Transportation expense	13,898	(3,736)	0	10,162	0	10,162
27	Rate case expense	32,688	(12,929)	0	19,759	0	19,759
28	WSC expense adjustment	0	(7,113)	0	(7,113)	0	(7,113)
29	CWS office expense adjustment	0	(783)	0	(783)	0	(783)
30	Total O&M expenses	331,173	(42,884)	0	288,289	0	288,289
31	Depreciation expense	90,696	(19,744)	0	70,952	0	70,952
32	Amortization expense	(9,317)	(257)	0	(9,574)	0	(9,574)
33	Property taxes	2,363	(1,007)	0	1,376	0	1,376
34	Payroll taxes	11,452	(833)	0	10,619	0	10,619
35	Regulatory fee	561	0	451	1,012	152	713
36	Gross receipts tax	18,702	(15)	15,031	33,718	5,094	23,781
37	State income tax	11,163	(10,150)	24,860	25,873	8,426	9,439
38	Federal income tax	44,694	(40,155)	111,363	115,902	37,743	42,282
39	Total operating revenue deductions	501,507	(115,045)	151,705	538,167	51,415	437,877
40	Net operating income for return	(\$53,958)	\$134,670	\$224,064	\$304,776	\$75,939	\$156,651

Agreed to by the parties.

[1]

[1] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2005

Sewer Operations

		Present Rates		Company Proposed Rates		Stipulated	
Line No.	Item	Per Application	Public Staff Adjustments (1)	Per Public Staff	Net Company Increase (d)	Operations After Rate Increase (e)	Operations After Rate Increase (f)
		(a)	(b)	(c)	(1)	(1)	(1)
Operating Revenues:							
1.	Service revenues	\$210,201	\$4,093	\$214,294	\$293,749	\$508,043	\$346,416
2.	Availability revenues	29,520	(1,080)	28,440	0	28,440	28,440
3.	Miscellaneous revenues	12,948	401	13,349	0	13,349	13,349
4.	Uncollectible accounts	(12,974)	10,454	(2,520)	0	(2,520)	(2,520)
5.	Total operating revenues	239,695	13,868	253,563	293,749	547,312	385,685
Operating & Maintenance Expenses:							
6.	Electric power	35,380	(68)	35,312	0	35,312	35,312
7.	Chemicals	12,473	656	13,129	0	13,129	13,129
8.	Salaries and wages	71,990	(6,881)	65,109	0	65,109	65,109
9.	Outside services - direct	1,855	(233)	1,622	0	1,622	1,622
10.	Employee benefits	15,701	(583)	15,118	0	15,118	15,118
11.	Insurance - other	10,442	(3,499)	6,943	0	6,943	6,943
12.	Rents	1,699	(225)	1,474	0	1,474	1,474
13.	Office supplies	1,433	147	1,580	0	1,580	1,580
14.	Billing & customer service	4,348	(17)	4,331	0	4,331	4,331
15.	Office utilities	3,967	(112)	3,855	0	3,855	3,855
16.	Office maintenance	574	22	596	0	596	596
17.	Miscellaneous expenses	2,948	(45)	2,903	0	2,903	2,903
18.	Maintenance - water plant	0	0	0	0	0	0
19.	Maintenance - sewer plant	12,385	1,065	13,450	0	13,450	13,450
20.	Maintenance - sludge hauling/rodding	27,424	11,129	38,553	0	38,553	38,553
21.	Maintenance - common plant	8,075	9,855	17,930	0	17,930	17,930
22.	Operators expense	1,658	882	2,540	0	2,540	2,540
23.	Water testing	0	0	0	0	0	0
24.	Sewer testing	3,343	1,151	4,494	0	4,494	4,494
25.	Equipment and chemical testing	247	66	313	0	313	313
26.	Transportation expense	13,898	(7,509)	6,389	0	6,389	6,389
27.	Rate case expense	32,688	(20,267)	12,421	0	12,421	12,421
28.	WSC expense adjustment	0	(4,471)	(4,471)	0	(4,471)	(4,471)
29.	CWS office expense adjustment	0	(492)	(492)	0	(492)	(492)
30.	Total O&M expenses	262,528	(19,429)	243,099	0	243,099	243,099
31.	Depreciation expense	50,938	(15,397)	35,541	0	35,541	35,541
32.	Amortization expense	(6,573)	(189)	(6,762)	0	(6,762)	(6,762)
33.	Property taxes	2,382	(1,517)	865	0	865	865
34.	Payroll taxes	7,230	(554)	6,676	0	6,676	6,676
35.	Regulatory fee	303	1	304	353	657	463
36.	Gross receipts tax	15,160	54	15,214	17,625	32,839	23,141
37.	State income tax	12,638	(12,638)	0	14,230	14,230	3,760
38.	Federal income tax	50,603	(50,603)	0	65,278	65,278	17,248
39.	Total operating revenue deductions	395,209	(100,272)	294,937	97,486	392,423	324,031
40.	Net operating income for return	(\$155,514)	\$114,140	(\$41,374)	\$196,263	\$154,889	\$61,654

[1] Agreed to by the parties

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-107-W/S

RECEIVED
2006 AUG -7 PM 4:11
SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of United Utility Companies,
Inc. for adjustment of rates and charges
and modifications to certain terms
and conditions for the provision of
water and sewer service.

REBUTTAL TESTIMONY
OF
BRUCE T. HAAS

1 Q. ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT
2 TESTIMONY IN THIS CASE?

3 A. Yes, I am.

4
5 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
6 PROCEEDING, MR. HAAS?

7 A. The purpose of my rebuttal testimony is to respond on behalf of United Utility
8 Companies, Inc., or "UUC", to portions of the pre-filed direct testimony of Dawn M.
9 Hipp on behalf of the South Carolina Office of Regulatory Staff, or "ORS".
10 Additionally, I will address some of the specific and general comments our customers
11 made during the night hearing in this matter.

12
13 Q. TO WHAT PORTIONS OF MS. HIPPI'S TESTIMONY DO YOU WISH TO
14 RESPOND?

1 **A.** First, I would like to generally comment on the Business Office Compliance
2 Review, the system inspections and the findings made by Ms. Hipp. The Company is
3 gratified by ORS's recognition that our business systems are well suited to ensure
4 compliance with the Commission's regulations and that the systems operated by UUC are
5 meeting the required standards. The Company works very hard to operate these systems
6 efficiently, safely and properly and we believe that ORS's review of the service we
7 provide reflects that.

8
9 **Q. ARE THERE ANY ASPECTS OF THE REVIEW WITH WHICH YOU DO NOT**
10 **AGREE?**

11 **A.** Yes. Although the review generally reflects that we are operating our systems
12 well, there is one point made by Ms. Hipp with which I feel the need to comment on.
13 Ms. Hipp states that the Company has failed to comply with Commission regulations R.
14 103-514 and R. 103-714 because it did not notify the Commission or ORS of a Consent
15 Order issued by the South Carolina Department of Health and Environmental Control, or
16 DHEC pertaining to our Briar Creek Subdivision I wastewater treatment facility, or
17 WWTF. I disagree with her on this point for several reasons. First, R. 103-714 is
18 inapplicable in this instance because it pertains to water service only. Second, and as Ms.
19 Hipp's testimony recognizes, R. 103-514 applies only where the violation noticed by
20 DHEC affects the service to a customer. The Consent Order in question regarded a
21 purported violation of permitted discharge limits for ammonia-nitrogen on discharge
22 monitoring reports submitted to DHEC for the September 2003 and February 2004

1 monitoring periods. The Company attributed this violation to a blockage in the Return
2 Activated Sludge line; however, DHEC noted that once the blockage was cleared, the
3 levels returned to normal. The Company expressed its belief that the second violation was
4 simply the result of lab error, as several other samples taken showed no increased levels.

5 It is certainly possible for a utility to have a violation of a DHEC rule that has no
6 affect on service to a customer, and that was the case here. The violation solely
7 concerned two samples that indicated discharge of excessive levels of ammonia-nitrogen
8 and did not impact the service received by customers. UUC informed DHEC, as
9 referenced in the consent order, that there were no operational problems at the WWTF.
10 Further, the consent order does not contain any allegations that the service to customers
11 was impacted, and the Company has received no notices from DHEC regarding alleged
12 violations that have had an affect on our ability to serve a customer, nor did any
13 customers complain to UUC, DHEC, ORS or the Commission that these violations had
14 affected their sewer service. Additionally, R. 103-514 does not obligate the Company to
15 file any notice of violation or consent order with ORS. Even if such violations are
16 required to be filed with ORS, the violation occurred and the consent order was issued
17 prior to ORS officially becoming effective on January 1, 2005 pursuant to Act 175 or
18 2004.

19
20 **Q. DO YOU HAVE ANY COMMENTS ON MS. HIPPIE'S RECOMMENDATION TO**
21 **INCREASE THE COMPANY'S BOND?**

1 **A.** I do not. Company witness Lena Sunardio will, however, comment on that issue
2 in her rebuttal testimony.

3
4 **Q. WHAT CUSTOMER CONCERNS EXPRESSED AT THE NIGHT HEARINGS**
5 **DO YOU WISH TO RESPOND TO, MR. HAAS?**

6 **A.** Two of our customers at the Anderson County hearing stated that there were odor
7 problems from time to time at the WWTF in the Chambert Forest subdivision. Initially, I
8 would note that ORS's review reflects that it received only two customer complaints in
9 the test year, neither of which related to odor. I would further note that odor from
10 wastewater treatment facilities is no phenomenon as, by the very nature of the business
11 and process, unpleasant aromas will from time to time be emitted from sewer utility
12 plants. It simply cannot be avoided. However, the extent and frequency of the odor
13 varies based upon a variety of factors. The proximity of a sewer facility to customer
14 premises has a large impact on the situation, with odor being more frequently noticed by
15 some customers than others. And in some instances, odor is more noticeable as
16 customers move about the area on foot. The weather and atmospherics can also play a
17 part in the pervasiveness of odor, particularly when customers are out of doors. This is
18 borne out by the system inspection reports submitted by the ORS in this case as exhibits
19 to Ms. Hipp's testimony. The ORS report of its inspection of the Chambert Forest I and
20 II plant noted that odor at the plant facility was limited to a "slight odor at 3:00 p.m." By
21 contrast, one customer noted that the odors from the WWTF increased during heavy
22 rains. And, there is also the subjective element of customer opinion on this issue which

1 has to be taken into account; what may be an unreasonable level of odor to some may not
2 be unreasonable to others. Our ability to abate odor – which is a costly undertaking – is
3 often dictated by these types of factors.
4

5 **Q. WHY IS ODOR ABATEMENT A COSTLY UNDERTAKING?**

6 **A.** To begin with, in almost all of the cases involving odor issues, the facility consists
7 in whole or in part of aeration ponds or equalization basins. Depending upon the amount
8 of rain and the atmospheric conditions, odor can develop more easily and quickly at these
9 types of facilities than any other. One obvious alternative is to eliminate the treatment
10 facility altogether by interconnection into regional facilities. However, in addition to the
11 impact on rate base that results from interconnection costs and the addition of
12 extraordinary retirement expenses when a working treatment facility is eliminated, the
13 bulk treatment costs incurred with the regional facility must be passed on to customers.
14 As Ms. Hipp's testimony reflects, we are also in the process of upgrading the Chambert
15 Forest wastewater treatment operations to improve our ability to meet discharge limits set
16 by our NPDES permit. We believe that this upgrade will further improve any odor issues
17 with this plant.
18

19 **Q. WILL THESE EFFORTS ELIMINATE ODOR?**

20 **A.** No, they will not. As I stated, our ability to abate odor is to a certain extent
21 dictated by the type of system, its proximity to residential areas, atmospheric conditions
22 and customer perceptions. Odor cannot be eliminated. Of course, it is our desire that our

1 customers not be subjected to offensive odors to the greatest extent possible and we are
2 committed to conducting our business in a manner which will give us an opportunity to
3 attain that goal. However, in some instances, it is not practicable to expect that we can do
4 that – even with the significant additional expenses of the type I just described.

5
6 **Q. DOES THE EXISTENCE OF ODOR AFFECT THE ADEQUACY OF THE**
7 **COMPANY’S SEWER SERVICE?**

8 **A.** No, it does not. The Company’s sewer facilities are adequate to provide service
9 to all of our customers and there have been no instances where service has been
10 unavailable to meet the needs of our customers as a result of odor or any other reason.

11
12 **Q. DO YOU HAVE ANY OTHER COMMENTS ON THE TESTIMONY PROVIDED**
13 **BY THE CUSTOMERS?**

14 **A.** Two of our customers stated that they were billed for sewer service provided to
15 previous owners of their residences. The billing history of these customers maintained by
16 the Company did not indicate any attempt on our part to have these customers pay for
17 bills incurred by previous residents. Our customers are billed only for services rendered
18 from their move-in date. Unfortunately, these types of situations contribute to higher
19 levels of uncollectibles experienced by UUC.

20 Similarly, two of our customers stated they were “back billed” several months of
21 service. In both instances, the customers purchased residences which we supply with
22 sewer service but for which we had received no notice of their purchase. Generally, as

1 was the case in these situations, our operator or other UUC employee will become aware
2 of someone living in a previously vacant home during field observations in our service
3 area. UUC notifies the customer that he or she has been provided with our sewer service
4 and, pursuant to 26 S.C. Code Ann. Regs. R. 103-533(2), bills the customer for the
5 services rendered, up to a maximum of six months. The Company does make installment
6 arrangements with our customers in the circumstance where necessary.

7 Unlike local government entities and special purpose districts, UUC has no
8 authority to impose liens on real property where sewer services have been provided but
9 not paid for. Nor can UUC have assessments for sewer service collected with property
10 taxes as do governmental utilities. If the Company had similar statutory authority, a
11 means would exist by which purchasers of real property could be alerted at a closing by
12 their attorney that an amount is due for prior services the Company has rendered. Also, I
13 would note that Fannie Mae Form 1004, effective March 2005, a copy of which is
14 attached hereto as BTH Rebuttal Exhibit No. 1, may also alert a prospective homebuyer
15 whether a residence has sanitary sewer.

16
17 **Q. COULD YOU ELABORATE ON YOUR STATEMENT REGARDING**
18 **UNCOLLECTIBLES?**

19 **A.** Yes. It is my understanding that Ms. Hipp is recommending that the Commission
20 make an adjustment in the level of uncollectibles experienced by UUC during its test
21 year. While every company strives to ensure that it receives payment for every service
22 rendered, in some situations, that is not possible. UUC attempts to collect responsibly on

1 all of its bills, but sometimes that is not possible given the limitation on our ability to
2 control the circumstances where property is transferred without notice to UUC. One
3 customer testified that several homes were using UUC's sewer services without paying.
4 In my opinion, UUC should not be punished because of customer failure to clear
5 accounts before they transfer properties, which increases the amount of uncollectibles.
6

7 **Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING CUSTOMER**
8 **TESTIMONY?**

9 **A.** Yes. I would like to comment on statements made by Ms. Beverly Wade at the
10 hearing in Spartanburg. In October of 2003, Ms. Wade's account was noted as being
11 delinquent as the Company had never received payment for the September 2004 invoice.
12 On October 9, 2003, Ms. Wade contacted our office and informed us that she had mailed
13 a money order to the West Columbia billing center. Our Customer Service
14 Representatives advised her that we needed a copy of the money order so that we could
15 properly research the payment and resolve her complaint. On October 21, 2003, Ms.
16 Wade contacted our offices again and we understood that she would be providing the
17 necessary document; however we never received a copy of the money order and Ms.
18 Wade did not contact our offices again.
19

20 **Q. ARE YOU AWARE THAT MS. WADE FILED WITH THE COMMISSION A**
21 **COPY OF THE RECEIPT FOR THE MONEY ORDER?**

1 **A.** Yes, I am. However, I would note that the document Ms. Wade provided to the
2 Commission was a receipt of when she purchased the money order and did not indicate
3 whether the money order was deposited by UUC. Our records do not reflect the receipt
4 of a money order from Ms. Wade during this time period.

5
6 **Q. DO YOU HAVE ANY OTHER COMMENTS?**

7 **A.** The Company's witness Mr. Converse Chellis will elaborate on this point more
8 fully in his testimony, but I have one final comment concerning the testimony given by
9 Mr. Alvin Simpson during the night hearing in which he stated that the UUC systems
10 were relatively small and suggested that smaller plants were cheaper to operate.
11 Apparently to support his opinion, Mr. Simpson stated that these facilities should only
12 have to undertake lab costs every one to three months to test for toxicity. I am not sure of
13 the testing that is required of the Gaffney wastewater treatment facility, but we have to
14 conduct many more tests at our systems to remain compliant with DHEC standards. For
15 instance, at just one of our WWTF's, Briar Creek II, we conduct no less than seventy
16 tests each month from ph levels to fecal coliform levels to nitrogen and phosphorus
17 levels. Such testing is expensive, but necessary to comply with all federal and state
18 regulations.

19
20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 **A.** Yes, it does.
22

Uniform Residential Appraisal Report

File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property Address	City	State	Zip Code
Borrower	Owner of Public Record		County
Legal Description			
Assessor's Parcel #	Tax Year	R.E. Taxes \$	
Neighborhood Name	Map Reference	Census Tract	
Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessments \$	<input type="checkbox"/> PUD	HOA \$ <input type="checkbox"/> per year <input type="checkbox"/> per month
Property Rights Appraised <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)			
Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)			
Lender/Client	Address		
Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Report data source(s) used, offering price(s), and date(s).			

I ☐ did ☐ did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.

Contract Price \$	Date of Contract	Is the property seller the owner of public record? <input type="checkbox"/> Yes <input type="checkbox"/> No	Data Source(s)
Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? <input type="checkbox"/> Yes <input type="checkbox"/> No			
If Yes, report the total dollar amount and describe the items to be paid.			

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics				One-Unit Housing Trends			One-Unit Housing		Present Land Use %	
Location	<input type="checkbox"/> Urban	<input type="checkbox"/> Suburban	<input type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining	PRICE	AGE	One-Unit %
Built-Up	<input type="checkbox"/> Over 75%	<input type="checkbox"/> 25-75%	<input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance	<input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit %
Growth	<input type="checkbox"/> Rapid	<input type="checkbox"/> Stable	<input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths	Low		Multi-Family %
Neighborhood Boundaries							High		Commercial %	
							Pred.		Other %	

Neighborhood Description

Market Conditions (including support for the above conclusions)

Dimensions	Area	Shape	View
Specific Zoning Classification	Zoning Description		
Zoning Compliance	<input type="checkbox"/> Legal <input type="checkbox"/> Legal Nonconforming (Grandfathered Use) <input type="checkbox"/> No Zoning <input type="checkbox"/> Illegal (describe)		
Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe			
Utilities	Public	Other (describe)	
Electricity	<input type="checkbox"/>	<input type="checkbox"/>	
Water	<input type="checkbox"/>	<input type="checkbox"/>	
Gas	<input type="checkbox"/>	<input type="checkbox"/>	
Sanitary Sewer	<input type="checkbox"/>	<input type="checkbox"/>	
Off-site Improvements—Type	Public	Private	
Street	<input type="checkbox"/>	<input type="checkbox"/>	
Alley	<input type="checkbox"/>	<input type="checkbox"/>	
FEMA Special Flood Hazard Area	<input type="checkbox"/> Yes <input type="checkbox"/> No	FEMA Flood Zone	FEMA Map #
FEMA Map Date			
Are the utilities and off-site improvements typical for the market area? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe			
Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe			

General Description	Foundation	Exterior Description	materials/condition	Interior	materials/condition
Units <input type="checkbox"/> One <input type="checkbox"/> One with Accessory Unit	<input type="checkbox"/> Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls		Floors	
# of Stories	<input type="checkbox"/> Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls		Walls	
Type <input type="checkbox"/> Det. <input type="checkbox"/> Att. <input type="checkbox"/> S-Det/End Unit	Basement Area sq. ft.	Roof Surface		Trim/Finish	
<input type="checkbox"/> Existing <input type="checkbox"/> Proposed <input type="checkbox"/> Under Const.	Basement Finish %	Gutters & Downspouts		Bath Floor	
Design (Style)	<input type="checkbox"/> Outside Entry/Exit <input type="checkbox"/> Sump Pump	Window Type		Bath Wainscot	
Year Built	Evidence of <input type="checkbox"/> Infestation	Storm Sash/Insulated		Car Storage <input type="checkbox"/> None	
Effective Age (Yrs)	<input type="checkbox"/> Dampness <input type="checkbox"/> Settlement	Screens		<input type="checkbox"/> Driveway # of Cars	
Attic <input type="checkbox"/> None	Heating <input type="checkbox"/> FWA <input type="checkbox"/> HWBB <input type="checkbox"/> Radiant	Amenities <input type="checkbox"/> Woodstove(s) #		Driveway Surface	
<input type="checkbox"/> Drop Stair <input type="checkbox"/> Stairs	<input type="checkbox"/> Other <input type="checkbox"/> Fuel	<input type="checkbox"/> Fireplace(s) #	<input type="checkbox"/> Fence	<input type="checkbox"/> Garage # of Cars	
<input type="checkbox"/> Floor <input type="checkbox"/> Scuttle	Cooling <input type="checkbox"/> Central Air Conditioning	<input type="checkbox"/> Patio/Deck	<input type="checkbox"/> Porch	<input type="checkbox"/> Carport # of Cars	
<input type="checkbox"/> Finished <input type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool	<input type="checkbox"/> Other	<input type="checkbox"/> Att. <input type="checkbox"/> Det. <input type="checkbox"/> Built-in	

Appliances ☐ Refrigerator ☐ Range/Oven ☐ Dishwasher ☐ Disposal ☐ Microwave ☐ Washer/Dryer ☐ Other (describe)

Finished area above grade contains: Rooms Bedrooms Bath(s) Square Feet of Gross Living Area Above Grade

Additional features (special energy efficient items, etc.)

Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).

Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? ☐ Yes ☐ No If Yes, describe

Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ No If No, describe

Uniform Residential Appraisal Report

File #

There are comparable properties currently offered for sale in the subject neighborhood ranging in price from \$										to \$									
There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$										to \$									
FEATURE		SUBJECT		COMPARABLE SALE # 1				COMPARABLE SALE # 2				COMPARABLE SALE # 3							
Address																			
Proximity to Subject																			
Sale Price		\$		\$				\$				\$							
Sale Price/Gross Liv. Area		\$ sq. ft.		\$ sq. ft.				\$ sq. ft.				\$ sq. ft.							
Data Source(s)																			
Verification Source(s)																			
VALUE ADJUSTMENTS		DESCRIPTION		DESCRIPTION		+(-) \$ Adjustment		DESCRIPTION		+(-) \$ Adjustment		DESCRIPTION		+(-) \$ Adjustment					
Sale or Financing																			
Concessions																			
Date of Sale/Time																			
Location																			
Leasehold/Fee Simple																			
Site																			
View																			
Design (Style)																			
Quality of Construction																			
Actual Age																			
Condition																			
Above Grade		Total Bdrms. Baths		Total Bdrms. Baths				Total Bdrms. Baths				Total Bdrms. Baths							
Room Count																			
Gross Living Area		sq. ft.		sq. ft.				sq. ft.				sq. ft.							
Basement & Finished																			
Rooms Below Grade																			
Functional Utility																			
Heating/Cooling																			
Energy Efficient Items																			
Garage/Carport																			
Porch/Patio/Deck																			
Net Adjustment (Total)				+ - \$				+ - \$				+ - \$							
Adjusted Sale Price				Net Adj. %				Net Adj. %				Net Adj. %							
of Comparables				Gross Adj. % \$				Gross Adj. % \$				Gross Adj. % \$							
<input type="checkbox"/> did <input type="checkbox"/> did not research the sale or transfer history of the subject property and comparable sales. If not, explain																			
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.																			
Data source(s)																			
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.																			
Data source(s)																			
Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).																			
ITEM		SUBJECT		COMPARABLE SALE # 1				COMPARABLE SALE # 2				COMPARABLE SALE # 3							
Date of Prior Sale/Transfer																			
Price of Prior Sale/Transfer																			
Data Source(s)																			
Effective Date of Data Source(s)																			
Analysis of prior sale or transfer history of the subject property and comparable sales																			
Summary of Sales Comparison Approach																			
Indicated Value by Sales Comparison Approach \$																			
Indicated Value by: Sales Comparison Approach \$ Cost Approach (if developed) \$ Income Approach (if developed) \$																			
This appraisal is made <input type="checkbox"/> "as is", <input type="checkbox"/> subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, <input type="checkbox"/> subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or <input type="checkbox"/> subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:																			
Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$, as of , which is the date of inspection and the effective date of this appraisal.																			

Uniform Residential Appraisal Report

File #

ADDITIONAL COMMENTS

COST APPROACH TO VALUE (not required by Fannie Mae)

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value)

COST APPROACH

ESTIMATED <input type="checkbox"/> REPRODUCTION OR <input type="checkbox"/> REPLACEMENT COST NEW		OPINION OF SITE VALUE = \$	
Source of cost data		Dwelling	Sq. Ft. @ \$ = \$
Quality rating from cost service	Effective date of cost data		Sq. Ft. @ \$ = \$
Comments on Cost Approach (gross living area calculations, depreciation, etc.)		Garage/Carport	Sq. Ft. @ \$ = \$
		Total Estimate of Cost-New = \$	
		Less	Physical Functional External
		Depreciation = \$()
		Depreciated Cost of Improvements = \$	
		"As-is" Value of Site Improvements = \$	
Estimated Remaining Economic Life (HUD and VA only) Years		Indicated Value By Cost Approach = \$	

INCOME

INCOME APPROACH TO VALUE (not required by Fannie Mae)

Estimated Monthly Market Rent \$	X Gross Rent Multiplier	= \$	Indicated Value by Income Approach
Summary of Income Approach (including support for market rent and GRM)			

PUD INFORMATION

PROJECT INFORMATION FOR PUDs (if applicable)

Is the developer/builder in control of the Homeowners' Association (HOA)? ☐ Yes ☐ No Unit type(s) ☐ Detached ☐ Attached

Provide the following information for PUDs ONLY if the developer/builder is in control of the HOA and the subject property is an attached dwelling unit.

Legal name of project

Total number of phases	Total number of units	Total number of units sold
Total number of units rented	Total number of units for sale	Data source(s)

Was the project created by the conversion of an existing building(s) into a PUD? ☐ Yes ☐ No If Yes, date of conversion

Does the project contain any multi-dwelling units? ☐ Yes ☐ No Data source(s)

Are the units, common elements, and recreation facilities complete? ☐ Yes ☐ No If No, describe the status of completion.

Are the common elements leased to or by the Homeowners' Association? ☐ Yes ☐ No If Yes, describe the rental terms and options.

Describe common elements and recreational facilities

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD). This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

SCOPE OF WORK: The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

INTENDED USE: The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

INTENDED USER: The intended user of this appraisal report is the lender/client.

DEFINITION OF MARKET VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS: The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.
2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.
3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.
5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.
6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

Uniform Residential Appraisal Report

File #

APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.
2. I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.
3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.
5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.
6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.
7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.
8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.
9. I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.
10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.
11. I have knowledge and experience in appraising this type of property in this market area.
12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.
13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.
14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.
15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.
16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.
17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).
19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.
20. I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.

Uniform Residential Appraisal Report

File #

21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).

22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

SUPERVISORY APPRAISER'S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

1. I directly supervised the appraiser for this appraisal assignment, have read the appraisal report, and agree with the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.

2. I accept full responsibility for the contents of this appraisal report including, but not limited to, the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.

3. The appraiser identified in this appraisal report is either a sub-contractor or an employee of the supervisory appraiser (or the appraisal firm), is qualified to perform this appraisal, and is acceptable to perform this appraisal under the applicable state law.

4. This appraisal report complies with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

5. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

APPRAISER

Signature _____

Name _____

Company Name _____

Company Address _____

Telephone Number _____

Email Address _____

Date of Signature and Report _____

Effective Date of Appraisal _____

State Certification # _____

or State License # _____

or Other (describe) _____ State # _____

State _____

Expiration Date of Certification or License _____

ADDRESS OF PROPERTY APPRAISED

APPRAISED VALUE OF SUBJECT PROPERTY \$ _____

LENDER/CLIENT

Name _____

Company Name _____

Company Address _____

Email Address _____

SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature _____

Name _____

Company Name _____

Company Address _____

Telephone Number _____

Email Address _____

Date of Signature _____

State Certification # _____

or State License # _____

State _____

Expiration Date of Certification or License _____

SUBJECT PROPERTY

☐ Did not inspect subject property☐ Did inspect exterior of subject property from street

Date of Inspection _____

☐ Did inspect interior and exterior of subject property

Date of Inspection _____

COMPARABLE SALES

☐ Did not inspect exterior of comparable sales from street☐ Did inspect exterior of comparable sales from street

Date of Inspection _____

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-107-W/S

RECEIVED
2006 AUG -7 PM 4:11
SC PUBLIC SERVICE
COMMISSION

IN RE:)
)
Application of United Utility Companies,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

REBUTTAL TESTIMONY
OF
LENA SUNARDIO

1 **Q. ARE YOU THE SAME LENA SUNARDIO THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 **A. Yes, I am.**
4

5 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

6 **A. The purpose of my rebuttal testimony is to respond on behalf of United Utility**
7 **Companies, Inc., or UUC, to certain aspects of the testimony and exhibits which have**
8 **been pre-filed by the Office of Regulatory Staff, or ORS.**
9

10 **Q. MRS. SUNARDIO HAVE YOU REVIEWED THE PRE-FILED TESTIMONY**
11 **OF CHRISTINA SEALE ON BEHALF OF ORS IN THIS MATTER?**

12 **A. Yes, I have reviewed her testimony and the Audit Department Report she**
13 **attached to her testimony.**

1 **Q. ARE THERE ANY ADJUSTMENTS DETAILED IN MS. SEALE'S**
2 **TESTIMONY AND THE ORS AUDIT REPORT WITH WHICH YOU**
3 **AGREE?**

4 **A.** Yes, I agree with quite a few of them, although I do qualify certain of our
5 agreements in this regard, in particular, the Company's agreement with the
6 adjustments related to the removal of the system serving Gem Lakes.
7

8 **Q. COULD YOU EXPLAIN THAT LAST STATEMENT?**

9 **A.** Yes. Although the Company has applied for the authority and received
10 Commission approval to transfer the Gem Lakes system, it is my understanding that
11 this property will not close and be legally transferred to the City of Aiken at least until
12 August 30, 2006. While I do agree with several adjustments relating to the removal of
13 this system, it is with the understanding and the assumption that the closing on this
14 property will be undertaken and successful. In the event there is no closing on this
15 property, I would disagree with the related adjustments.
16

17 **Q. GIVEN THOSE QUALIFICATIONS, COULD YOU EXPLAIN WHICH OF**
18 **ORS'S ADJUSTMENTS YOU ACCEPT?**

19 **A.** Specifically, the Company accepts the following adjustments proposed by
20 ORS:

21 Number 1 – Service Revenues – United Utility Companies, Inc. (UUC) agrees
22 with the \$6,823 adjustment to service revenues to reflect test year customer billings.

1 Numbers 2, 25, and 26 – Service Revenues – UUC agrees with the sewer
2 revenues adjustment relating to the transfer of Gem Lakes and the relinquishment of
3 Keowee Townhomes service territory.

4 Number 9 – General Expenses – UUC agrees with the \$3,000 adjustment to
5 remove a DHEC fine paid relating to Briarcreek Subdivision.

6 Number 10 – Depreciation Expense – UUC agrees with the (\$4,187)
7 adjustment to annualize depreciation expense as of June 30, 2006 for known and
8 measurable plant in service.

9 Number 13 – Tax Accrual for Property Taxes – UUC agrees with the removal
10 of the \$40,295 for property taxes to reflect actual test year expense. This adjustment
11 was proposed by UUC in the original filing.

12 Number 16 – Amortization of Contributions in Aid of Construction – UUC
13 agrees with the \$172 adjustment to annualize amortization of CIAC expense as of
14 September 30, 2005.

15 Number 17 – Interest During Construction – UUC agrees with the elimination
16 of the \$1,064 in IDC costs for rate making purposes. This adjustment was proposed
17 by UUC in the original filing.

18 Numbers 18 and 43 – Customer Growth – Although we do not propose such an
19 adjustment, UUC agrees with the calculation methodology used by ORS to arrive at its
20 proposed net \$2,295 customer growth adjustment as of June 30, 2006. However, the
21 actual amount of any adjustment will differ from ORS' adjustment due to the
22 difference in revenues requested.

1 Number 19 – Gross Plant in Service – UUC agrees with the \$249,580
2 adjustment to include pro forma projects, general ledger additions and capitalized time
3 as of June 30, 2006.

4 Number 21 – Accumulated Depreciation – UUC agrees with the \$46,426
5 adjustment to reduce accumulated depreciation for general ledger retirements and
6 annualized depreciation expense adjustment.

7 Number 23 – Contributions in Aid of Construction – UUC agrees with the
8 (\$172) adjustment to reflect the amortization of CIAC expense as of September 30,
9 2005 as a result of Adjustment 16.

10 Number 27 – Miscellaneous Revenues – UUC agrees with the (\$1,663)
11 adjustment to remove the miscellaneous revenues associated with Gem Lakes and
12 Keowee Townhomes.

13 Number 29 – Maintenance Expenses – UUC agrees with the (\$64,496)
14 adjustment to remove per book maintenance expenses of Gem Lakes.

15 Number 30 and 31 – Operators' Salaries and Operating Expense Charged to
16 Plant associated with Gem Lakes – UUC agrees with the methodology of applying a
17 ratio of .0262 to the operators' salary adjustment and the operators' salaries charged to
18 plant adjustment to reflect the transfer of Gem Lakes. However, the actual amount
19 calculated by UUC will differ from ORS's adjustment due to the salary increases that
20 were not incorporated in the ORS adjustment.

21 Number 32 – General Expenses – UUC agrees with the (\$46,013) adjustment
22 to remove per book general ledger expense of Gem Lakes from total expenses to
23 reflect the transfer of Gem Lakes.

1 Number 33 and 34 – Office Salaries and Pension and Other Benefits – UUC
2 agrees with the methodology of applying a ratio of .1477 to office salaries' adjustment
3 and .0547 to pension and other benefits adjustment to reflect the transfer of Gem
4 Lakes. However, the actual amount calculated by UUC will differ from ORS'
5 adjustment due to the salary increase that was not incorporated by the ORS.

6 Number 35 – Allocation Amount – UUC agrees with the (\$12,829) adjustment
7 to remove allocation amounts associated with the Gem Lakes transfer.

8 Number 36 – Depreciation Expense – UUC agrees with the (\$10,060)
9 adjustment to remove depreciation expense related to the transfer of Gem Lakes and
10 the relinquishment of Keowee Townhomes service territory.

11 Number 37 – Taxes Other Than Income – UUC agrees with the (\$13,634)
12 adjustment to remove per book taxes other than income expense to reflect the transfer
13 of Gem Lakes.

14 Number 38 and 39 – Payroll Taxes and Utility/Commission Tax – UUC agrees
15 with the methodology to remove .0428 of the payroll tax adjustment and .1617 of the
16 utility/commission tax adjustment to reflect the transfer of Gem Lakes. However,
17 these amounts will differ due to adjustments with which the Company does not agree.

18 Number 42 – Amortization of CIAC – UUC agrees with the \$512 adjustment
19 to remove amortization of CIAC to reflect the transfer of Gem Lakes.

20 Number 44 – Gross Plant in Service – UUC agrees with the (\$670,606)
21 adjustment to remove per book plant in service to reflect the transfer of Gem Lakes
22 and the relinquishment of Keowee Townhomes.

1 Number 45 – Operating Expense Charged to Plant – UUC agrees with the
2 methodology to apply a ratio of .0262 to operators' salaries capitalized to plant
3 associated with the Gem Lakes transfer. However, the amount of the adjustment will
4 be different because ORS did not incorporate the salaries increases in their
5 adjustments.

6 Number 46 – Accumulated Depreciation – UUC agrees with the removal of
7 \$144,025 from accumulated depreciation associated with the transfer of Gem Lakes
8 and the relinquishment of Keowee Townhomes service territory.

9 Number 48 – Contributions in Aid of Construction (CIAC) – UUC agrees with
10 the \$34,120 removal of CIAC per books to reflect the transfer of Gem Lakes.

11 Number 49 – Accumulated Deferred Income Taxes (ADIT) – UUC agrees with
12 the \$123,876 removal of ADIT per books to reflect the transfer of Gem Lakes.

13 Number 50 – Customer Deposits – UUC agrees with the \$2,190 removal of per
14 books customer deposits to reflect the transfer of Gem Lakes.

15 Number 51 – Water Service Corporation Rate Base – UUC agrees with the
16 (\$2,465) adjustment to reflect UUC's transfer of Gem Lakes and the relinquishment of
17 its Keowee Townhomes service territory.

18 Number 52 – Interest Expense – UUC agrees with the \$14,584 removal of
19 interest expense related to the transfer of Gem Lakes and the relinquishment of
20 Keowee Townhomes.

21 Number 58 – Customer Growth – UUC agrees with methodology to calculate
22 customer growth for the proposed revenue increase. However, the amount of the

1 actual adjustment will differ from ORS's adjustment due to the difference in revenues
2 requested.

3
4 **Q. ARE THERE ANY ADJUSTMENTS DETAILED IN THE ORS AUDIT**
5 **REPORT AND TESTIMONY THAT YOU DISAGREE WITH?**

6 **A.** Yes, there are sixteen specific adjustments proposed by ORS with which we do
7 not agree. Also, these proposed adjustments would affect certain other fallout, or
8 related item adjustments, such as taxes, cash working capital, etc. Therefore, the
9 Company would disagree with these fallout adjustments as well.

10
11 **Q. WOULD YOU PLEASE DISCUSS THE FIRST ORS ADJUSTMENT WITH**
12 **WHICH YOU DISAGREE?**

13 **A.** Yes. It is Adjustment Number 3 dealing with Uncollectible Accounts.

14
15 **Q. HOW HAS THE COMMISSION HISTORICALLY CALCULATED THE**
16 **UNCOLLECTIBLE PERCENTAGE?**

17 **A.** Historically, the Commission has calculated the uncollectible percentage based
18 on the trial balance amount of actual booked uncollectibles during the test year divided
19 by the test year revenues.

20
21 **Q. WHAT PERCENTAGE IS ORS USING TO CALCULATE THE**
22 **UNCOLLECTIBLE ACCOUNTS?**

1 **A.** ORS is using 1.50% to calculate the uncollectible expenses for the water and
2 sewer revenue accounts. By using 1.50%, ORS is adjusting the uncollectible account
3 by a net amount of \$32,715 which includes a \$30,426 adjustment to “higher than
4 typical” uncollectibles per 9/30/05 books and a \$2,289 adjustment associated with the
5 Gem Lakes transfer.

6
7 **Q. WHY IS THE 1.50% USED BY ORS TO CALCULATE THE**
8 **UNCOLLECTIBLES UNREASONABLE?**

9 **A.** ORS has not cited to any authority to support the 1.50% used to calculate the
10 uncollectibles. They simply state that the 1.50% is “a reasonable percentage to
11 calculate uncollectible accounts based on their examination of billing records” and that
12 UUC’s uncollectibles are higher than typical. I do not believe this is the case.

13
14 **Q. WHY DO YOU BELIEVE THAT THE UNCOLLECTIBLE AMOUNT IS NOT**
15 **HIGHER THAN TYPICAL?**

16 **A.** First and foremost, in UUC’s last rate case, the Commission found, in its Order
17 No. 2002-214, that the appropriate uncollectible amount for the Company was 2.99%.
18 It is my understanding that when a utility files an application for a rate case in South
19 Carolina, among the factors the Commission should consider is the comparison of the
20 utility’s previous rate case filing. In 1996, the South Carolina Supreme Court issued
21 its opinion in Heater of Seabrook, Inc. v Public Service Commission, 324 S.C. 56, 478
22 S.E. 2d 826 (1996). The Court stated there that “[i]n determining whether Heater’s
23 expenses had increased enough to justify a rate increase, [the] Commission should

1 have compared the current test year, including any known and measurable changes
2 after the test year, with [the] test year from the prior case.” In comparing the
3 Company’s test year from this rate case with that of the previous rate case, the current
4 uncollectible percentage is not uncharacteristic of this expense.
5

6 **Q. WHAT WAS UUC’S UNCOLLECTIBLE PERCENTAGE IN THE LAST RATE**
7 **CASE?**

8 **A.** After the audit was conducted during the 2000 UUC rate case, Commission
9 Staff used the per book uncollectible percentages of 2.76% for the water and 3.14%
10 for the sewer operations. The Commission should not cut the uncollectible to half the
11 level of what was previously found reasonable.
12

13 **Q. IN YOUR OPINION, WHY DOES UUC EXPERIENCE THAT LEVEL OF**
14 **UNCOLLECTIBLES?**

15 **A.** I believe that there are several reasons for the level of uncollectible
16 experienced by UUC, but the Company’s witness, Bruce Haas, will discuss that matter
17 in more detail.
18

19 **Q. WHAT PERCENTAGE FOR UNCOLLECTIBLES SHOULD BE USED IN**
20 **THE UUC RATE CASE?**

21 **A.** In previous rate cases in which ORS has recommended an adjustment for
22 uncollectible amounts, ORS has pointed to specific factors which caused the increased
23 uncollectible amount. For instance, in Docket No. 2004-259-S, ORS recommended an

1 adjustment to uncollectibles based upon inconsistent billing practices, waiving late
2 fees and noncollection of commercial customer accounts. Even in that instance, ORS
3 did not recommend adjusting uncollectibles because they were excessive, but because
4 ORS concluded that the utility had questionable practices concerning its operations
5 and management. ORS has made no such claims against UUC. In fact, ORS has
6 stated that UUC bills in accordance with our approved rate structure and that our
7 business systems are well suited to comply with the administrative aspects of the
8 Commissions regulations. Further, Ms. Hipp noted that our invoice adjustments,
9 deposit refunds, and late payment penalties are automated, accurate and timely.

10 Moreover, it is my understanding that the Commission has previously made
11 adjustments to uncollectibles based on the actual uncollectibles experienced during the
12 test year. In Order No. 91-412, Docket No. 90-698-C (dated May 29, 1991), the
13 Commission stated that it “believes that it is appropriate to adjust uncollectibles using
14 an uncollectible rate which reflects a normal year.” In that instance, GTE South, Inc.
15 experienced a higher than normal level of uncollectibles as a result of Hurricane Hugo
16 and the Commission applied a normalized rate to reflect “uncollectible expenses as
17 would be typical in a normal year. Therefore, uncollectibles should be based on the
18 most recent and accurate data which in this case is the 2004 and 2005 trial balances
19 and annual reports and reflects the normal level of uncollectibles experienced by the
20 company. Based on the test year water revenues in the amount of \$43,424 and the
21 sewer revenues in the amount of \$737,783, the following percentages should be used:
22 4.68% for the water uncollectibles and 5.73% for the sewer uncollectibles. These
23 recent historical percentages should be allowed to be applied in calculating the

1 uncollectibles going forward. Based upon these percentages, UUC does support
2 adjusting the sewer uncollectibles (\$8,381) related to the Gem Lakes transfer.

3
4 **Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?**

5 **A.** I disagree with ORS's Adjustment Number 4 pertaining to operators' salaries.
6 ORS's adjustment only includes a portion of the operators' salaries. Their adjustment
7 totals \$2,265 and represents the annualized salaries as of 9/30/05 without salary
8 increases. Operators received salary increases as of 7/1/06 and the salary increase
9 adjustment totals \$16,408, for a total salary adjustment of \$18,673. Every year UI's
10 operating subsidiaries reviews all operators and office personnel and makes annual
11 salary adjustments. ORS has proposed no salary increase adjustment to operators'
12 salaries on the basis that "supporting documentation was not received in sufficient
13 time to allow for its audit". The payroll reports were provided to ORS as soon as they
14 became available on 7/24/06. The increase in the operators' salaries is a known and
15 measurable expense which we have documented with external source documents. In
16 *The Regulation of Public Utilities* (1993 Ed.), Dr. Charles F. Phillips, Jr., elaborates on
17 post test year changes at page 196 by noting: "'Philosophically, the strict test year
18 assumes the past relationship among revenues, costs and net investment during the test
19 year will continue into the future.' To the extent that these relationships are not
20 constant, the actual rate of return earned by a utility may be quite different from the
21 rate allowed by the commission. For many years, commissions have adjusted test-year
22 data for 'known changes'; that is, a change that actually took place **during or after**
23 **the test period.**"

1 **Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?**

2 A. I also disagree with ORS Adjustment Number 5 pertaining to Operating
3 Expense Charged To Plant. ORS has proposed to adjust the operating expense
4 charged to plant by (\$2,122). This total does not include the operators' salaries
5 increase and increase in benefits & payroll taxes stemming from the increase in
6 salaries. I used 30.12% to calculate the operating expense charged to plant. This
7 percentage was used by ORS to calculate its adjustment as well. The adjustment for
8 operating expense charged to plant amounts to (\$5,700).

9
10 **Q. WHAT IS THE NEXT ORS ADJUSTMENT WITH WHICH YOU DISAGREE?**

11 A. It is ORS Adjustment Number 6 which addresses Office Salaries. ORS's
12 adjustment only includes a portion of the office salaries. This adjustment totals \$1,568
13 and it represents annualized salaries as of 9/30/05 without the annual merit salary
14 increases. Office employees received salary increases as of 7/1/06 and the salary
15 increase adjustment totals \$1,385, for a total salary adjustment of \$2,953. ORS has
16 proposed no salary increase adjustment in office salaries on the basis that "supporting
17 documentation was not received in sufficient time to allow for its audit." The external
18 payroll documents were provided to the ORS at the earliest time possible and that
19 change is known and measurable.

20
21 **Q. IS THIS THE SAME ANNUAL REVIEW PROCESS THAT YOU**
22 **PREVIOUSLY MENTIONED?**

23 A. Yes.

1 **Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH**
2 **WHICH YOU DISAGREE?**

3 **A.** Yes, it is Adjustment Number 7 for Rate Case Expense. ORS's adjustment
4 does not include the costs necessary to resolve this rate proceeding. There should be
5 no argument that the Company has incurred or will incur additional costs to resolve
6 this case. The Commission should allow these estimated costs to be included in the
7 rate case expense, or in the alternative, allow the actual costs incurred through the
8 hearing date to be included for ratemaking purposes as it has done in past proceedings.
9 The expenses associated with the rate case are reasonable, necessary and recoverable
10 expenses. Furthermore, these rate case costs are necessary to insure the Company can
11 provide reliable utility service to its customers.

12
13 **Q. WOULD YOU PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH**
14 **WHICH YOU DISAGREE?**

15 **A.** I disagree with ORS Adjustment Number 6 regarding Pension and Other
16 Benefits. ORS's adjustment only includes a portion of the total proposed pension and
17 other benefits. Their adjustment totals \$(164) and does not include the annual merit
18 salary increase for operators and office employees. The increase in pension and other
19 benefits is due to the salary increases previously discussed. The increase to Pension
20 and Other Benefits related to the annual merit salary increases for both operators and
21 office employees' totals \$1,353, for a total pension and other benefits adjustment of
22 \$1,189.

1 **Q. WHAT IS THE NEXT ORS ADJUSTMENT YOU DISAGREE WITH?**

2 **A.** It is ORS Adjustment Number 11 regarding Taxes Other Than Income. ORS's
3 adjustment \$(1,193) only includes the payroll taxes for the operators' and office
4 salaries without the impact of salary increase. The increase in payroll taxes due to the
5 annual salary increase previously discussed. The additional increase in payroll tax
6 adjustment is \$1,350, for a total taxes other than income expense amount of \$157.
7

8 **Q. PLEASE DISCUSS THE NEXT ORS ADJUSTMENT WITH WHICH YOU**
9 **DISAGREE.**

10 **A.** I partially disagree with ORS Adjustment Number 30, which is to adjust
11 operators' salaries to reflect the transfer of Gem Lakes by applying a ratio of .0262. I
12 agree with the ratio computed by ORS, however, the amount of the adjustment should
13 be (\$430) due to the increase in operators' salaries. Similar logic is applied to ORS
14 Adjustment Numbers 31 (Operating Expenses Charged to Plant), 33 (Office Salaries),
15 34 (Pension and Other Benefits), 38 (Payroll Taxes), 39 (Utility/Commission Tax), 45
16 (Operating Expenses Charged to Plant related to Gross Plant in Service), 52 (Interest
17 Expense), and 54 (Uncollectible Accounts) where I agree with the ratios calculated to
18 remove items associated with the removal of Gem Lakes and Keowee Townhomes,
19 however, since these are fall out items, the amounts will change due to the change in
20 related expense accounts.

1 **Q. WHAT ARE THE LAST ORS ADJUSTMENTS WITH WHICH YOU HAVE A**
2 **DISAGREEMENT?**

3 **A.** That would be Staff Adjustment Numbers 22 and 47 dealing with Cash
4 Working Capital. The Company and the ORS agree on the methodology to calculate
5 cash working capital. However, the parties' basis, operation and maintenance
6 expense, for calculating cash working capital differ.

7
8 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH REFLECTS THE**
9 **ADJUSTMENTS YOU DISCUSSED ABOVE?**

10 **A.** Yes, I have attached this exhibit as LS Rebuttal Exhibit No. 1
11

12 **Q. HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS PRE-FILED BY**
13 **MS. DAWN HIPP ON BEHALF OF ORS?**

14 **A.** Yes, I have.
15

16 **Q. WHAT PORTIONS OF MS. HIPP'S TESTIMONY DO YOU INTEND TO**
17 **ADDRESS?**

18 **A.** I intend to address the portions of her testimony concerning the level of the
19 Company's bond.
20

21 **Q. REGARDING THE COMPANY'S BOND, WHAT IS YOUR RESPONSE TO**
22 **MS. HIPP'S TESTIMONY?**
23

1 **A.** We will comply with the requirement to increase our bond for our water and
2 sewer utility operations to a minimum of \$100,000 and \$350,000, respectively.
3 However, it will cost the Company \$5,250 more annually to maintain these additional
4 letters of credit. We believe an adjustment to our Miscellaneous Expenses in that
5 amount is known and measurable and we request that the Commission make such an
6 adjustment, if it adopts ORS' recommendation in this regard.

7

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A.** Yes, it does.

United Utility Companies, Inc.
Docket No. 2006-107-WS
Index to Exhibits

LS Rebuttal Exhibit No. 1

<u>Line No.</u>	<u>Title</u>	<u>Schedule No.</u>
(1)	Rate base & net operating income water and sewer combined	1
(2)	Rate base & net operating incomewater operations	1-1
(3)	Rate base & net operating income sewer operations	1-2
(4)	Uncollectibles	2
(5)	Calculation of salary and benefits [Confidential - not attached]	3
(6)	Calculation of operating expense charged to plant	4
(7)	Calculation of taxes other than income	5
(8)	Calculation of income taxes	6
(9)	Capital structure	7
(11)	Rate Case Expense	8
(12)	Calculation of working capital	9
(13)	Calculation of proposed rates	10

United Utility Companies, Inc.
Docket No. 2006-107-WS
Rate base & net operating income water and sewer combined

Schedule 1

	Per ORS	UUCI Pro Forma Adjustments		Total Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	\$ 43,424	\$ -		\$ 43,424	\$ 21,986	\$ 65,410
Service Revenues - Sewer	728,520	-		728,520	135,470	863,990
Miscellaneous Revenues	27,819	-		27,819	-	27,819
Uncollectible Accounts	(11,580)	(22,045)	[n][r]	(33,625)	(18,929) [r]	(52,554)
Total Operating Revenues	\$ 788,183	\$ (22,045)		\$ 766,138	\$ 138,527	\$ 904,665
Operating Expenses						
Maintenance Expenses	\$ 439,716	\$ 10,427	[a][j][e][g]	\$ 450,143		\$ 450,143
General Expenses	127,308	17,709	[c][i][k][l][m][o]	145,017		145,017
Depreciation	88,898	83	[s]	88,981	-	88,981
Taxes Other Than Income	67,560	1,006	[h][p][q]	68,566	1,772	70,338
Income Taxes - Federal	14,222	-		14,222	28,313	42,535
Income Taxes - State	2,138	-		2,138	4,258	6,396
Amortization of PAA	-	-		-	-	-
Amortization of CIAC	(43,629)	-		(43,629)	-	(43,629)
Total Operating Expenses	\$ 696,213	\$ 29,226		\$ 725,439	\$ 34,344	\$ 759,782
Total Operating Income	\$ 91,970	\$ (51,271)		\$ 40,699	\$ 104,184	\$ 144,883
Growth adjustment	2,295	(1,223)		1,072	2,313	3,385
Interest During Construction	-	-		-	-	-
Net Income	\$ 94,265	\$ (52,493)		\$ 41,772	\$ 106,496	\$ 148,268
Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	\$ 4,895,220	\$ 5,550	[b][d]	\$ 4,900,770	\$ -	\$ 4,900,770
Accumulated Depreciation	(391,965)	(83)	[c]	(392,048)	-	(392,048)
Net Plant In Service	4,503,255	5,467		4,508,722		4,508,722
Cash Working Capital	70,878	3,517	[a]	74,395		74,395
Contributions In Aid of Construction	(2,565,751)	-		(2,565,751)		(2,565,751)
Accumulated Deferred Income Taxes	(258,077)	-		(258,077)		(258,077)
Customer Deposits	(32,553)	-		(32,553)		(32,553)
Plant Acquisition Adjustment	-	-		-		-
Water Service Corporation	10,087	-		10,087		10,087
Total Rate Base	\$ 1,727,839	\$ 8,984		1,736,823	\$ -	\$ 1,736,823
Return on Rate Base	5.46%			2.41%		8.54%
Operating Margin	3.64%			-3.15%		9.11%
Interest Expense	65,558			65,889	[f]	65,889
Return on Equity	4.06%			-3.40%		11.60%

	Per ORS	UUCI Pro Forma Adjustments		Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	\$ 43,424	\$ -		\$ 43,424	\$ 21,986	\$ 65,410
Service Revenues - Sewer	-	-		-	-	-
Miscellaneous Revenues	1,114	-		1,114	-	1,114
Uncollectible Accounts	(651)	(1,382)	[n][r]	(2,033)	(1,029) [r]	(3,062)
Total Operating Revenues	\$ 43,887	\$ (1,382)		\$ 42,505	\$ 20,957	\$ 63,462
Operating Expenses						
Maintenance Expenses	\$ 22,577	\$ 677	[a][j]	\$ 23,254	-	\$ 23,254
General Expenses	11,950	1,553	[c][i][k][l]	13,503	-	13,503
Depreciation	7,359	5	[s]	7,364	-	7,364
Taxes Other Than Income	4,960	85	[h]	5,045	247	5,293
Income Taxes - Federal	(1,699)	-		(1,699)	5,647	3,948
Income Taxes - State	(256)	-		(256)	850	594
Amortization of PAA	-	-		-	-	-
Amortization of CIAC	(3,687)	-		(3,687)	-	(3,687)
Total Operating Expenses	\$ 41,204	\$ 2,321		\$ 43,525	\$ 6,744	\$ 50,269
Total Operating Income	\$ 2,683	\$ (3,703)		\$ (1,020)	\$ 14,213	\$ 13,193
Customer Growth Adjustment	-	-		-	-	-
Interest During Construction	-	-		-	-	-
Net Income	\$ 2,683	\$ (3,703)		\$ (1,020)	\$ 14,213	\$ 13,193

Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	\$ 430,645	\$ 360	[b]	\$ 431,005	\$ -	\$ 431,005
Accumulated Depreciation	(48,939)	(5)	[c]	(48,944)	-	(48,944)
Net Plant In Service	381,706	354		382,060	-	382,060
Cash Working Capital	4,316	279	[a]	4,595	-	4,595
Contributions In Aid of Construction	(206,972)	-		(206,972)	-	(206,972)
Accumulated Deferred Income Taxes	(23,787)	-		(23,787)	-	(23,787)
Customer Deposits	(2,192)	-		(2,192)	-	(2,192)
Plant Acquisition Adjustment	-	-		-	-	-
Water Service Corporation	792	-		792	-	792
Total Rate Base	153,863	\$ 633		154,496	\$ -	154,496
Return on Rate Base	1.74%			-0.66%		8.54%
Operating Margin	-7.19%			-16.19%		11.55%
Interest Expense	5,838			5,861	[f]	5,861
Return on Equity	-5.01%			-10.89%		11.60%

	Per ORS	UUCI Pro Forma Adjustments		Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues						
Service Revenues - Water	\$ -	\$ -		\$ -	\$ -	\$ -
Service Revenues - Sewer	728,520	-		728,520	135,470	863,990
Miscellaneous Revenues	26,705	-		26,705	-	26,705
Uncollectible Accounts	(10,929)	(20,663)	[n][r]	(31,592)	(17,899) [r]	(49,491)
Total Operating Revenues	\$ 744,296	\$ (20,663)		\$ 723,633	\$ 117,571	\$ 841,204
Operating Expenses						
Maintenance Expenses	\$ 417,139	\$ 9,750	[a][j][e][g]	\$ 426,889		\$ 426,889
General Expenses	115,358	16,156	[c][i][k][l][m][o]	131,514		131,514
Depreciation	81,539	78	[s]	81,617		81,617
Taxes Other Than Income	62,600	921	[h][p][q]	63,521	1,524	65,045
Income Taxes - Federal	15,921	-		15,921	22,667	38,588
Income Taxes - State	2,394	-		2,394	3,409	5,803
Amortization of PAA	-	-		-	-	-
Amortization of CIAC	(39,942)	-		(39,942)	-	(39,942)
Total Operating Expenses	\$ 655,009	\$ 26,905		\$ 681,914	\$ 27,600	\$ 709,513
Net Operating Income	\$ 89,287	\$ (47,568)		\$ 41,719	\$ 89,971	\$ 131,690
Growth Adjustment	2,295	(1,223)		1,072	2,313	3,385
Interest During Construction	-	-		-	-	-
Net Income	\$ 91,582	\$ (48,791)		\$ 42,791	\$ 92,284	\$ 135,075
Original Cost Rate Base:	Per ORS	Pro Forma Adjustments		As Adjusted	Proposed Increase	As Adjusted
Gross Plant In Service	\$ 4,464,575	\$ 5,191	[b][d]	\$ 4,469,766	\$ -	\$ 4,469,766
Accumulated Depreciation	(343,026)	(78)	[c][e]	(343,104)	-	(343,104)
Net Plant In Service	4,121,549	5,113		4,126,662		4,126,662
Cash Working Capital	66,562	3,238	[a]	69,800		69,800
Contributions In Aid of Construction	(2,358,779)	-		(2,358,779)		(2,358,779)
Accumulated Deferred Income Taxes	(234,290)	-		(234,290)		(234,290)
Customer Deposits	(30,361)	-		(30,361)		(30,361)
Plant Acquisition Adjustment	-	-		-		-
Water Service Corporation	9,295	-		9,295		9,295
Total Rate Base	1,573,976	\$ 8,351		1,582,327	\$ -	1,582,327
Return on Rate Base	5.82%			2.70%		8.54%
Operating Margin	4.28%			-2.38%		8.92%
Interest Expense	59,720			60,028	[f]	60,028
Return on Equity	4.95%			-2.66%		11.60%

Explanation of Adjustments to Income Statement

- [a] Salary adjustment based on current salary increases as of 7/18/2006.
- [b] Intentionally left blank.
- [c] Salary adjustment based on current salary increases as of 7/18/2006.
- [d] Intentionally left blank.
- [e] Adjustment to remove .0262 of operating salaries adjustment [a] associated with Gem Lakes.
- [f] Interest on debt has been computed using a 59.1% / 40.9% debt/equity ratio and a 6.42% cost of debt.
- [g] Adjustment to add .0262 of operating salaries charged to plant adjustment [j] associated with Gem Lakes.
- [h] Increase in payroll taxes based on increase in salaries.
- [i] Increase in benefits based on increase in salaries.
- [j] Increase in operating expenses charged to plant based on the increase in maintenance salaries.
- [k] The additional LOC will cost 1.5% of the additional \$350,000 [allocated between water & sewer].
- [l] Actual and estimated rate case expense amortized over 3 years.
- [m] Adjustment to remove .1477 of office salaries adjustment [c] associated with Gem Lakes.
- [n] Uncollectibles associated with the removal of Gem Lakes is calculated based on a 5.73% rate.
- [o] Adjustment to remove .0547 of pension and benefits adjustment [i] associated with Gem Lakes.
- [p] Adjustment to remove .0428 of payroll taxes adjustment [h] associated with Gem Lakes.
- [q] Adjustment to remove .1617 of utility/commission tax and gross receipts tax adjustment associated with Gem Lakes.
- [r] Uncollectibles are adjusted based on historical percentages of 4.68% for water and 5.73% for sewer.
- [s] 1.5% depreciation is calculated on the capitalized salaries.

Explanation of Adjustments to Rate Base and Rate of Return

- [a] Cash working capital is calculated based on 1/8 of maintenance and general expenses.
- [b] 30.12% of operators' salaries, taxes and benefits are capitalized to plant as a result of the adjustment due to salary increases.
- [c] 1.5% depreciation is calculated on the capitalized salaries.
- [d] Adjustment to remove .0262 of operating expense charged to plant adjustment [b] associated with Gem Lakes.
- [e] Adjustment to remove .0262 of depreciation calculated on the capitalized salaries adjustment [c] associated with Gem Lakes.

United Utility Companies, Inc.
Docket No. 2006-107-WS
Uncollectibles

Schedule 2

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Test Year	<u>\$ 43,424</u>	<u>\$ 737,783</u>	<u>\$ 781,207</u>
Uncollectible Accounts	<u>\$ 2,033</u>	<u>\$ 42,262</u>	<u>\$ 44,295</u>
Uncollectible %	<u>4.68%</u>	<u>5.73%</u>	
Proposed Revenues	<u>\$ 65,410</u>	<u>\$ 863,990</u>	
Uncollectible %	<u>4.68%</u>	<u>5.73%</u>	
Uncollectible Accounts	<u>\$ 3,062</u>	<u>\$ 49,491</u>	<u>\$ 52,554</u>

Note: Methodology of calculating uncollectibles consists with the Commission's past practice.

United Utility Companies, Inc.

Docket No. 2006-107-WS

Schedule 4

Calculation of operating expense charged to plant

Total Operating Expense Charged to Plant per Books	\$	(59,723)		
Total Operating Expense charged to Plant (from Exhibit 3) * 30.12%		(67,545)		
Percentage of Pro Forma Salaries, Taxes, and Benefits to Charge to Plant	\$	<u>(7,822)</u>		
Total Operating Adjustment to Plant per ORS	\$	(2,122)		
Net rebuttal adjustment charged to Plant	\$	<u>(5,700)</u>	<u>W</u> \$ (360)	<u>S</u> \$ (5,340)
		[j]	[j]	[j]

United Utility Companies, Inc.
Docket No. 2006-107-WS
Calculation of taxes other than income

Schedule 5

	Water	Sewer	Total
<u>Pro Forma Adjustments</u>			
Payroll Tax Increase	\$ 85	\$ 1,265	\$ 1,351
Adjustment	\$ 85	\$ 1,265	\$ 1,351
<u>Proposed Increase Adjustments</u>			
Revenue Increase	\$ 21,986	\$ 135,470	\$ 157,456
Utility/Commission Tax	0.83%	0.83%	0.83%
Gross Receipts Tax	0.30%	0.30%	0.30%
Adjustment	\$ 247	\$ 1,524	\$ 1,772

United Utility Companies, Inc.
Docket No. 2006-107-WS
Calculation of income taxes

Schedule 6

<u>WATER</u>	Pro Forma Proposed
<u>State Income Taxes</u>	
Total Revenue	\$ 63,462
Maintenance Expense	23,254
General Expense	13,503
Depreciation & Amortization	3,677
Taxes Other Than Income	5,293
Interest Expense	5,861
Taxable Income	\$ 11,873
State Tax Rate	5.0%
Total State Income Taxes	\$ 594
<u>Federal Taxes</u>	
Taxable Income before taxes	\$ 11,873
Less: State I/T	594
Federal Taxable Income	11,280
Federal Tax Rate	35%
Total Federal Taxes	\$ 3,948
<u>SEWER</u>	Pro Forma Proposed
<u>State Income Taxes</u>	
Total Revenue	\$ 841,204
Maintenance Expense	426,889
General Expense	131,514
Depreciation & Amortization	41,675
Taxes Other Than Income	65,045
Interest Expense	60,028
Taxable Income	\$ 116,053
State Tax Rate	5.0%
Total State Income Taxes	5,803
<u>Federal Taxes</u>	
Taxable Income before taxes	\$ 116,053
Less: State I/T	5,803
Federal Taxable Income	\$ 110,250
Federal Tax Rate	35%
Total Federal Taxes	\$ 38,588

United Utility Companies, Inc.
Capital structure

Schedule 7

	September, 30 2005	Annual Interest Expense	Capital Structure
<u>COMMON SHAREHOLDERS' EQUITY:</u>			
Common shares, \$.10 par value; authorized and issued 1,000 shares, respectively 0 shares reserved for stock options, respectively	\$ 100		
Paid-in capital	24,261,656		
Retained earnings (\$42,152,239 restricted at December 31, 2003)	73,467,650		
Note receivable from parent	(2,650,000)		
Other Comprehensive Income	(427,551)		
Total Common Shareholder's Equity	<u>\$ 94,651,855</u>		<u>40.90%</u>
<u>LONG-TERM DEBT:</u>			
Collateral trust notes -			
5.41%, \$7,142,857 due in annual installments beginning in 2006 through 2012	\$ 50,000,000	2,705,000	
9.16%, \$1,000,000 due in annual installments through 2006	1,000,000	91,600	
9.01%, \$1,500,000 due in annual installments through 2007	4,500,000	405,450	
8.42%, \$5,857,143 due in annual installments beginning in 2009 through 2015	41,000,000	3,452,200	
4.55%, \$4,000,000 due in annual installments beginning in 2008 through 2012	20,000,000	910,000	
4.62%, \$4,000,000 due in annual installments beginning in 2008 through 2012	20,000,000	924,000	
Other long-term debt -			
8.10% to 8.96% promissory notes payable to bank due in monthly installments through 2017	289,858	25,000	
Amortization of Debt and Acquisition Expense		266,781	
Total Long-Term Debt	<u>\$ 136,789,858</u>	<u>\$ 8,780,031</u>	<u>59.10%</u>
TOTAL CAPITALIZATION	<u>\$ 231,441,713</u>		<u>100.00%</u>
COST OF DEBT	<u>6.42%</u>		
	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	59.10%	6.42%	3.79%
Common Equity	40.90%	11.60%	4.74%
	100.00%		8.54%
Pro Forma Interest Expense			
	Water	Sewer	Total
Pro Forma Present Rate Base	154,496	1,582,327	1,736,823
Debt Ratio	59.10%	59.10%	59.10%
Embedded Cost of Debt	6.42%	6.42%	6.42%
Pro Forma Interest Expense	<u>5,861</u>	<u>60,028</u>	<u>65,889</u>

United Utility Companies, Inc.
Docket No. 2006-107-WS
Rate Case Expense

Schedule 8

	Total		
Total Cost of current case to date	\$ 79,008		
Management Audit	5,920		
Estimated expense to be incurred including hearing	<u>30,000</u>		
Total	114,928		
Amortized over 3 years	<u>3</u>		
Amortization Expense per year	\$ 38,309		
Yearly rate case expense allowed by ORS	<u>\$ (28,309)</u>		
Total Adjustment	<u><u>\$ 10,000</u></u>	Water	Sewer
		<u>\$ 631</u>	<u>\$ 9,369</u>

United Utility Companies, Inc.
Docket No. 2006-107-WS
Calculation of working capital

Schedule 9

		<u>Water</u>
Pro Forma Present		
Maintenance Expenses		\$ 23,254
General Expenses		<u>13,503</u>
Total		<u>\$ 36,757</u>
Working Capital	45/360	<u>\$ 4,595</u>

		<u>Sewer</u>
Pro Forma Present		
Maintenance Expenses		\$ 426,889
General Expenses		<u>131,514</u>
Total		<u>\$ 558,403</u>
Working Capital	45/360	<u>\$ 69,800</u>

United Utility Companies, Inc.
Docket No. 2006-107-WS
Calculation of Proposed Rates

Schedule 10

WATER

Bill code	Description	Gallorage	Usage Charge	Units	BFC	Revenues
70001	5/8" Residential Distribution	1,705,100	\$ 6.82	289	\$ 17.05	\$ 16,564
70001	5/8" Residential Distribution	1,404,278	6.82	244	17.05	13,743
70002	5/8" Residential Distribution	41,090	6.82	5	17.05	366
70001	5/8" Residential Distribution	3,492,710	6.82	590	17.05	33,895
70002	5/8" Residential Distribution	98,400	6.82	10	17.05	842
	Total	<u>6,741,578</u>		<u>1,138</u>		<u>\$ 65,410</u>

SEWER

Bill code	Description	Gallorage	Usage Charge	Units	Rate	Revenues
70021	5/8" Residential	-	-	600	\$ 56.42	33,855
70028	3/4" Residential	-	-	24	56.42	1,354
70021	5/8" Residential	-	-	1,103	56.42	62,236
70021	5/8" Residential	-	-	1682	56.42	94,906
70022	5/8" Residential - Mobile Home			1687	41.69	70,323
70021	5/8" Residential			1068	56.42	60,262
70021	5/8" Residential			1493	56.42	84,242
70022	5/8" Residential - Mobile Home			293	41.69	12,214
70021	5/8" Residential			3302	56.42	186,314
70021	5/8" Residential			1100	56.42	62,067
70021	5/8" Residential			144	56.42	8,125
70024	Sewage Collection Charge			923	28.98	26,746
70024	Sewage Collection Charge			2430	28.98	70,415
72321	Sewage Collection Charge			3138	28.98	90,931
						-
	Total	<u>-</u>		<u>18,987</u>		<u>\$ 863,990</u>